

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

UNITED STATES
DEPARTMENT OF AGRICULTURE
LIBRARY



BOOK NUMBER

1.90

C20u8

1942

Reserve

505174

ero 8-7671

(Incomplete)

UNITED STATES DEPARTMENT OF AGRICULTURE

LIBRARY
RECEIVED

★ JAN 27 1944 ★

U. S. Department of Agriculture

1. 90

CC. C. C. S.

1942

(incomplete)

Addresses
delivered at the 20th
Annual Outlook
Conference
Washington, D. C.
Oct. 19-21, 1942

LIBRARY
RECEIVED

★ MAR 6 1943 ★

U. S. Department of Agriculture

Washington, D. C.
November, 1942

1. The Demand, Income and Price Outlook for Agriculture - O. C. Stine
2. How Well Fed Can We Be In 1943? - Hazel K. Stiebeling
3. Marketing Situations as they Affect the Outlook - Frederick V. Waugh
4. Will We Be Able to Control Inflation? - R. V. Gilbert
5. Farm Price Control: What's Ahead? - A. C. Hoffman
6. Food Rationing and Agriculture - Harold B. Rowe
7. Brakes on Spending - Ruth W. Ayers
8. Farm Family Spending and Saving in Wartime - Helen R. Jeter
9. How Farm Families Can Help Finance the War - W. I. Myers
- *10. What "Parity" Is - O. V. Wells *Not obtainable*
11. What is Wrong With "Parity" - W. I. Meyers
12. What Ought to be Done to Parity - John D. Black
13. The Farm Labor Situation - Raymond C. Smith
14. The Farm Labor Program of the Department - David Meeker
15. Machinery and Other Production Materials Problems - Sherman E. Johnson
16. Adjusting Marketing and Transportation to War Needs - F. L. Thomsen
17. Agriculture - When the War Ends - F. F. Elliott
18. Remarks of Hector Jose Santaella
19. The National War Labor Board's Contributions to Economic Stabilization - Wayne L. Morse

* In press. Will be sent later.

1.90

C 2048
1942505174
UNITED STATES DEPARTMENT OF AGRICULTURE

505174

THE DEMAND, INCOME AND PRICE OUTLOOK
FOR AGRICULTURE

Address by O. C. Stine, Bureau of Agricultural Economics,
at the 20th Annual Agricultural Outlook Conference, Washing-
ton, D. C., October 19, 1942.

The most significant fact confronting us in the outlook today is the prospect for continuing this war into 1943 at least. Furthermore, in making plans for 1943 it would seem wise to look ahead into the prospect for war conditions in 1944 and 1945. The next most significant fact confronting us today is the most complete state control of our national economy that we have ever experienced. We now have the machinery and the will for stabilizing prices, wages and incomes, and for directing the use of manpower and materials. These are basic conditions in the farm outlook for 1943.

The war effort is testing the powers of production and control. In 1943 the national manpower requirements will be about 50 percent greater than in 1939 when the war broke out. Industrial production will be more than double the pre-war average, and the income of industrial workers in 1942 is more than double the pre-war average and probably will be increased 30 percent in 1943. But equally significant facts are that a very large share of the industrial production will be spent on the war, and that the products of industry available for those employed in industry and for other civilians for use will be greatly reduced. It is estimated that in 1942 one-half of the industrial production is being spent on the war and that in 1943 two-thirds of it will be so used. We are sharing foods with our associates in the war to the extent of more than 10 percent in 1942, and probably at least 20 percent in 1943. It follows that, while industrial workers in 1943 may receive more than twice as much money as in 1939, they will find only about one-half the usual quantity of industrial products available for purchase. Such a situation naturally results in increased demand for farm products and creates strong pressure against price-fixing measures.

The volume of Government expenditures and the method of financing the war are also important factors in the outlook for prices and the pressure against price-control measures. The war effort requires an enormous increase in Government expenditures. It is estimated that war expenditures in 1942 will amount to about 50 billion dollars and in 1943 to at least 90 billions. The federal tax bill is increasing but no so fast, being estimated at about 5 billion dollars in 1939, 16 billions for 1942, and perhaps 26 billions in 1943. The great amount of borrowing required for financing the deficit tends to inflate credit.

The national income, estimated at 71 billion dollars in 1939, is now at a level of about 116 billions and may pass 130 billions in 1943. A part of this increased income is being absorbed by increased taxation and part in savings in the form of war savings stamps and bonds sold to individuals. But

JUL 26 1944

the increased taxes and individual savings are still not sufficient to absorb the increased money purchasing power in the hands of individuals, which creates a pressing demand for the limited goods and services available to consumers.

The cost of foods is still comparatively low and thus, at present ceiling prices, very inviting to the industrial worker. It requires only about 32 percent of the average nonagricultural family income at present to buy the quantities of foods the family has been consuming on the average. In the previous war period it required as high as 38 percent in one year (1919). At the outbreak of the present war, foods were cheap. In 1939 it required about 25 percent of the average weekly wage to purchase the food for the industrial worker's family. In the meantime average incomes have advanced so rapidly that the same quantity of foods could now be purchased for the smallest proportion of income required at any time in the past 30 years.

The great increase in national manpower requirements constitutes a pressure against wage controls and creates difficulties for agriculture. The great increase is for the military service and war industries. The military service will absorb at least 3 million workers and it is estimated that war industries may absorb 18 million. This is more than half of all the persons employed in 1939. The total number employed in that year is estimated at a little over 46 million. At that time there were about 8 million unemployed, and most of these have been put back to work. In 1943 it will be necessary to use in so far as possible all the employables and to draw upon boys, old men, and women who normally would not be working. It is estimated that between August 1941 and 1942 the employment of women increased over 2 millions and in August constituted about 15 percent of the employment in agriculture and 30 percent in industry. Some further additions will be required in 1943. To maintain agriculture and civilian industry even at the reduced levels indicated above will require the addition of 5 to 6 million workers more than would be normally employed in the labor force.

The increasing demand for labor has been an important factor in advancing wage rates. The wage stabilization program will permit some further advance in the average of wage rates through upward adjustments in cases where wages and salaries have lagged or are considered to be unjustly low. Some increase in wage rates, together with increased employment, will continue a marked advance in total pay rolls, thus increasing the purchasing power of wage workers.

The advance in industrial wages has two very significant effects upon the position of the farmer. In the first place, the advance in wage rates increases the costs of the processing and distributing of farm products. This tends to widen the margin between what the farmer receives for his products and what the consumer must pay. When ceilings are placed upon the price to the consumer, increasing the margin reflects back upon the price to the producer. There has been some lag in this war period in adjusting the margin as wages have increased. Even with industrial wage stabilization, undoubtedly some adjustments will have to be made; and if the prices to consumers are not advanced in accordance with increased costs for processing and distribution, the result will be either a reduction in prices to farmers or these increased costs will have to be made up by subsidy.

The second important effect of the advancing industrial wage rates is that the higher wages, with a job beckoning from the factory, draw labor from the farms, and farm wage rates must be increased to hold the necessary labor. Ordinarily farm wage rates are determined on the one hand by the prices of farm products or the ability of the operator to pay for his labor, and on the other hand by the opportunity for industrial employment. Farm wage rates have advanced sharply in terms of pre-war 1910-14, from an average of 123 in 1939 to 220 in October 1942. The average farm wage of \$2.76 per day (or about 28 cents per hour for a 10-hour day may seem high to farmers, but they are very low in comparison with the average weekly or hourly earnings of factory workers. The military service is, of course, drawing upon the farm, but the factory has an equally strong pull. An average of 85 cents per hour with a shorter day is very inviting. Some relaxation of the military draft and industrial wage stabilization probably will check the flow of labor from the farm and also the advance in farm wage rates.

The general price level began a sharp advance shortly after the outbreak of war in Europe. The prices of farm products led the advance. They were low at the beginning of the war but increased demands together with the prospects of abnormal war demands were promptly reflected in the prices of many farm products. Wages began advancing as in the previous war period. The imposition of price controls on some products checked the general price level advance in 1941, and the extension of controls in 1942 has held the general price level considerably below the high level reached in 1917. The advance in farm prices has been checked. Some further advances are to be expected as a result of evening up in necessary readjustments. However, it now seems likely that, with the stabilization of wages and with price controls now in effect, the general price level will be held considerably below the high levels reached in 1917 and 1918.

The increased income of industrial workers in 1943 together with increased Government purchases of farm products for the military service and for lend-lease probably will result in the income from marketings in 1943 exceeding that of 1942 by at least a billion dollars. The gross income from agriculture in 1942 exceeded the high level reached in 1919. Notwithstanding an increase in expenses of production, the net income from agriculture was the highest on record. The great increase in farm income from 1939 to 1942 has been due in part to the sharp advance in prices received for farm products, but also in large part to the great expansion in production. The volume of agricultural production has been creeping upward since 1910. In 1942 it was 50 percent greater than the 1910-14 pre-war average. It was 26 percent greater than the 1935-39 average. A moderate increase in farm prices, such as indicated above, for a production about equal to that of last year, would raise cash farm income probably about a billion dollars. With some increase in costs, especially labor costs, the net income may be only a little larger than in 1942.

In war periods, farm incomes rise more rapidly than nonfarm incomes because of the sharp advances in prices of farm products. This affects the parity of farm income in relation to nonfarm income. In the previous war period the income from agriculture rose to a very high level in relation to nonfarm income. After the war farm income fell sharply and nonfarm income remained at a high level for many years. In the present war period the nonfarm income per person not on farms has risen more sharply than in the previous war period. The ratio of income from agriculture per person on farms to

nonfarm income has risen 39 percent from the 1935-39 pre-war average. The parity income ratio for 1942 is 139 -- this in relation to the 1910-14 pre-war base. It now seems probable that the parity income ratio in this war period will not rise nearly so high as it did in the previous war period. In fact, nonfarm income per capita in 1943 is likely to advance more than the farm income per person on farms, and the parity ratio may decline.

The prices of farm products also have come back to parity in this war period. In the previous war period farm prices rose above parity and then declined sharply and to a level far below parity in 1921. Recovery from the depression brought them back about to parity in 1936, but they dropped back to a level considerably below until this war again started them upwards.

Many of the articles that farmers buy are now subject to control, but there may be some further advance in the index of prices farmers pay, interest and taxes. The real problem with reference to some of the articles that farmers buy will be to obtain needed supplies. The substitute may cost more than the article commonly used. The prices of some items may advance and the index in 1943 may average a few points higher than in 1942.

The average of the prices that farmers receive for their products in 1943 probably will be a little higher than in 1942. The prices of about 90 percent of the sales are now subject to control. Even with ceilings fixed, the average of prices will crowd upward unless the margins widen and the increase in the margin is not otherwise made up. Feed prices probably will rise in the winter and spring, and this will affect both the index of prices received and that of prices paid. The seasonal price swings of the controlled items probably will be reduced, with the prices in the season of heaviest production holding more closely than normal to the ceiling. Furthermore, it is to be expected that some ceilings may be raised a little and/or support prices will be used to maintain or increase the production of items needed for the war effort.

Adequate farm production to meet essential requirements in 1943 is now a matter of primary concern. The demand for some products is determined largely by industrial production for war and other necessary uses. The need for cotton is determined largely by the war requirements. Cotton consumption has continued to follow closely industrial production. Consumption last year was at a record high level. This high level is likely to continue through the war period. We have on hand an abundance of cotton to meet these war requirements. We need more of the longer, but not of the shorter staples. The accumulated stock of cotton is a valuable asset and probably will be needed at the end of the war.

Tobacco needs also have been increased by the war. The demand for and consumption of tobacco like those of cotton have followed the expansion of industrial production. In this case too the supply is apparently sufficient to meet prospective requirements.

Food requirements depend not only upon nutritional needs but also upon the purchasing power of consumers. The actual consumption of food depends upon the supply as well as the demand. The per capita consumption from 1910 to date reflects the effects of wars upon supplies and the effects of purchasing power. In the previous World War period the per capita consumption

declined. This was on account of the increased volume of shipments abroad. Following the war period, as the export outlets shrunk and while the purchasing power of industrial workers in this country remained at a high level, per capita consumption was at a high level. The great depression reduced it for a period. The large supply of foodstuffs with high purchasing power has again brought per capita consumption back to a high level, reaching a peak in 1941. The increase in lend-lease shipments for 1942 has reduced the per capita available supply. Even if 1942 production is maintained in 1943, the supply available for civilian consumers probably will be further reduced. With fixed prices, consumers will want more food than they can buy. This creates pressure against the fixed price ceilings and makes necessary the rationing of many farm products.

In considering food needs for 1943 we should take into account trends in the consumption of the several foodstuffs. The demand for meats, fish and poultry will be unusually high because of the high purchasing power and the fact that these foods are high up in the preferences of the consumers of the United States. The trend of the per capita consumption of these foods had been downward until the outbreak of this war. The consumption is affected by production and by export demand, as well as by domestic and consumer purchasing power. Cycles of production and severe droughts are reflected in the changes in per capita consumption. The upward trend in the per capita consumption of dairy products reflects a marked change in consumer habits accompanied by a marked increase in production. The demand for dairy products will continue at a high level and will press against price ceilings.

The per capita consumption of fruits and vegetables has increased sharply with increased purchasing power. There has been an upward trend in the consumption of both, and high purchasing power will result in pressure on the prices of some of these products.

The demand for fats and oils for food and for industrial uses will continue at a high level. The supply of some probably will be so limited as to require rationing to obtain the best use of the quantities available.

We have an abundant supply of cereals to meet all prospective requirements for consumption in this country and for shipments abroad. The per capita consumption has declined materially. We have on hand a large stock of old wheat, and will have a large carry-over at the end of the season, even after we have fed considerable quantities.

We have an abundant supply of feedstuffs for the livestock on hand. Feed ratios generally are favorable. But labor is scarce, machinery and materials restricted, and production in the summer and fall months will be affected materially by the weather. The supply of some crops and of dairy products in the latter half of 1943 will depend, of course, to a considerable extent upon the weather. Furthermore, the weather in 1943 may be a very important factor in determining supplies for the next year. We have this year harvested a large wheat crop, resulting from the highest yields on record. We have seen in the past a large crop followed by a short crop. Wheat yields can drop to such a low level that the next crop will not equal our domestic food requirements of that product for a year. We are harvesting a record corn crop, but an unfavorable season can cut this to half to even to one-third of this year's crop. It follows that under war conditions we need to plan to carry unusually large stocks and to take unusual measures to

guarantee future supplies.

In summarizing the production outlook, it now seems likely that the supply of animal products generally will be greater in 1943 than in 1942. The greatest increases probably will be registered in the production of hogs and chickens. There is likely to be some increase in cattle. There are some indications of a reduction in the number of sheep on farms, which may result in some reduction in the production of wool and lambs. There is likely to be a moderate increase in dairy production. The maintenance of dairy production will depend about as much upon the availability of manpower and farm wages as upon supply of feedstuffs. Favorable weather might result in maintaining crop production. Crop production generally is likely to fall below that in the past year unless the weather is again unusually favorable. All in all, we shall probably be able in 1943 to meet all military and lend-lease requirements and feed and clothe the civilian population in the United States about as well as they have been on the average. We may, however, come to the end of the year with reduced stocks and a much more difficult problem to provide adequate supplies for 1944 than we are now facing for 1943.

1290
c20u8
1942

UNITED STATES DEPARTMENT OF AGRICULTURE

HOW WELL-FED CAN WE BE IN 1943?

Address by Hazel K. Stiebeling, Bureau of Home Economics, at
20th Annual Agricultural Outlook Conference, Washington, D. C.,
October 19, 1942

Basic to much of what I shall say about dietary levels in 1942-43 is the October summary of the Bureau of Agricultural Economics regarding our national food situation:

"The 1942 record food production is sufficient to take care of the large military and lend-lease requirements, and will provide civilian consumers for the year as a whole with a supply which is larger than average on a per capita basis. However, recent shortages in certain food items may be expected to continue for the remainder of this year. These local and over-all shortages arise partly from transportation and distribution difficulties, but mainly from increased purchasing power which gives consumers the means to buy more food at the established prices than is available.

"Present estimates indicate that the total supply of food in 1943 may be larger than in previous years. A large portion of this supply will go to our allies and our military forces, leaving for the civilian population a somewhat smaller per capita supply than in either 1941 or 1942 but perhaps larger than the average for the period 1935-39. With price controls and further increased purchasing power, the demand for most foods in 1943 is likely to exceed the supply."

The suggestion is that we civilians may be as well off nutritionally as in 1935-39. How well was that? About as good as - perhaps a little better than - in 1936, the year when we made very extensive dietary studies. In 1936 the raw food taken into the Nation's kitchens appeared to be low in at least two vitamins - riboflavin and niacin - compared with the National Research Council's dietary recommendations; borderline in calcium and thiamine, but apparently adequate in other nutrients.

These estimates of consumption, however, were based on uncooked products, and do not take household waste into account or the losses in certain nutrients during food preparation and serving. Such losses in some foods may amount to 50 percent or more of the total in the raw product. Hence, these averages are optimistic, particularly with respect to ascorbic acid and thiamine. The allowances recommended by the NRC are the quantities that should be ingested.

Another point: Even when averages may seem to meet the recommendations of nutritionists, actually a large proportion of families will have diets seriously deficient in one or more nutrients. For example, the proportion of families having diets in 1936 that were below National Research Council recommendations in calcium was 50 percent; in vitamin A, 30; in ascorbic acid, 65; in thiamine, 60; and riboflavin, 60.

In 1941-42, diets in this country were better than in 1936 or 1935-39. Several factors contributed to this end:

(1) Many families had higher incomes and could buy more and better food. Food production was high in 1940-42 and food prices exceptionally low in 1940 and early 1941, so that despite the rises in the cost of food during the latter part of 1941, incomes of wage earners bought more both in 1940 and 1941 than five years earlier.

(2) Public interest in nutrition has been greatly stimulated recently by our national nutrition campaign.

(3) In 1941, millers and bakers began to produce "enriched" white flour and bread, thereby contributing to the thiamine, niacin, and iron content of diets of those families that read the labels and choose the enriched product. The resulting difference is important for those low-income groups depending heavily on refined grain products for their nourishment.

(4) The Department's food stamp program, direct food distribution, school lunches, and arrangements for low-priced milk help have helped to channel an enlarged share of national food supplies to needy persons.

In consequence of these and other factors, American diets were richer in ascorbic acid, thiamine, riboflavin and protein in the early 1940's than in the middle '30's. Consumption of fresh citrus fruit was more than a third higher in 1940-41 than in 1936; of other fruit and fresh vegetables, between 10 and 15 percent higher. Consumption of meat and eggs was 8 to 10 percent higher, and of dairy products, less than 5 percent higher. On the other hand, there was a slight decrease in the quantities consumed of grain products and potatoes.

Under stress of war it becomes more important than ever to have a well-fed nation. It is urgent that we hold on to such dietary gains as have been made, and where possible make further advances.

Were increasing understanding of food values and food needs and increasing purchasing power the only requirements for advance to higher dietary levels, we might be able to make progress in 1943. But civilians will be unable to get as much of some important foods--meat, butter, milk, many vegetables and fruits - as they would be able and willing to buy at current prices. Favorable weather and special planning for our food supply are necessary even to supply something more than 1935-39 per capita volume. Measures must be taken to retain on the farm the number of workers necessary to carry on production; to provide for minimal needs for machinery, fertilizer and other supplies; for fundamental requirements in processing and transportation. These we are counting on.

If we succeed in producing and bringing to market the volume of food anticipated by the Department's staff - and I am not doubting this ability - here are the headlines from the outlook for 1943:

Civilians will have an ample supply of cereals. Even if the 1943 cereal crops were short, there would still be a plentiful supply of cereals for human consumption in the United States after all lend-lease and export requirements are met.

The civilian per capita supply of fats and oils may be somewhat smaller than in 1942 but still larger than the pre-war average.

The consumption of sugar is being reduced in 1942 by rationing. The transportation situation next year may be such as to curtail 1943 supplies below those of 1942. This may mean increased demand for grain products, potatoes, and beans to supply the food energy ordinarily gotten from sugar. Incidentally, these products supply many other nutrients than carbohydrate.

Available civilian supplies of sweetpotatoes and dry beans in 1942 are larger than average, and there will be a considerable stock at the end of the year so that the supply for 1943 is likely to be larger than in 1942. The carry-over into 1943 of potatoes will not be sufficient to maintain a civilian supply as large as in recent years if the crop yield in 1943 should turn out to be only about average.

The supply of fresh-fruits and vegetables in 1943 will depend to a considerable extent on crop yields, the availability of labor for harvesting the crops, and transportation facilities. In some cases fruit crops are likely to be somewhat less than in 1942, owing to a tendency for alternating high and low yields. Restrictions upon canning may reduce quantities of both fruits and vegetables that may be canned, and consequently reduce the average supplies of such items available for civilian consumption. It becomes highly important then that production and marketing concentrate on those most important nutritionally.

The supply of poultry and eggs available for civilian consumption probably will be larger in 1943 than in any recent year and considerably larger than the pre-war average. The civilian supply of meats per person in 1943 seems likely to be larger than the pre-war average, but supplies of fish may be smaller.

The total supply of milk in 1943 may average about the same as this year unless special incentives are offered to producers to maintain or increase milk production per cow. Large military and lend-lease requirements, however, are likely to reduce the supply for civilian consumption below that of the previous 2 years, though, but not much below the average for the period 1935-39.

The nutritional value of the overall civilian food supply in prospect for 1943 appears to be about as good as the average for 1935-36. However, the food may provide fewer calories - i.e. less fats and carbohydrates, - and less vitamin A than in 1941. Foods differ markedly in the contribution that each makes. In diet planning we customarily classify foods into a dozen or more major categories, the items in each of which are more or less alike nutritionally - at least more like each other than like those in other categories.

When for one reason or another some single food item is no longer available, or is available in greatly reduced quantities, the first step is to find whether other foods in the same category are available in sufficient volume to fill the gap. If so, the problem of food alternates is fairly simple. If, however, there is a shortage in the entire group

APR 1, 1944

of foods, the nutritive values usually derived from that source must be obtained by changing the proportions in which several groups of food are provided. This calls for expert knowledge of food values and food habits, and a full understanding of all the issues involved. Adjustments of this second type can best be made by a group of persons representing all of the various fields of knowledge.

It is reassuring to know that current plans for our agricultural production are taking into account the nutritional needs as well as other factors. For example, when it becomes necessary to curtail civilian consumption of meat, every effort is made to provide a supply of other foods that can take the place of meat in the diet. Vegetable production is being streamlined to fit the diminishing supply of farm labor, farm machinery, and transportation. Special emphasis is to be given to growing the kinds that give the highest nutritive returns for the labor involved. The relative food value of different kinds of vegetables and fruits also will determine to a large extent which kinds will be selected for canning.

We cannot afford to use resources for production that will merely cause local surpluses and waste. Nor can we afford waste enroute to markets, in markets, or in kitchens. We must have special planning - nationally, regionally and locally - to maintain 1943 dietary levels as high as in the late 1930's. Committees in Washington have been working on the problem. But the regional and local adaptation of national plans requires the interest of intelligent and informed citizens in every community.

Even though agriculture succeeds in producing and getting to market a total supply of food that will be fairly comparable in nutritive value to that delivered in 1935-39, there still is the problem of equitable sharing of this supply by the various civilian groups. Except for measures such as the Department's food distribution programs, food in the recent past has been largely "rationed" by price. Within a population families in the upper income classes generally tend to have more variety and greater abundance of food than their less prosperous neighbors, and at each income level the smaller the family the more ample the diet. Furthermore, there are always wide variations in nutritive quality of diets even among those having equal economic resources. There are differences in managerial ability and in the knowledge and skill in food selection and preparation. This was true in 1936, in 1941-42, and probably will be true to a large extent in 1943. Since the outlook is for a smaller supply than civilians would be able and willing to buy at current prices, some control in distribution even among those able to buy will be necessary, or the person who can run fastest and arrives first will come out on top. There may be less than usual for those formerly in the highest income groups.

Furthermore, declaring the right to buy certain maximum quantities will not be enough to prevent nutrition from falling below 1935-39 levels among those whose incomes are low and relatively fixed. Food prices have risen. In September the Bureau of Labor Statistics index of retail food costs was 14.4 percent above September of last year. From September 1941 to September 1942 meat prices increased 13.2 percent, eggs 16.8 percent, dairy products 7.8 percent, fats and oils 17.2 percent, cereals and bakery goods 4.5 percent, and fruits and vegetables 29.1 percent. Further

increases are expected in the cost of some foods, as explained in the October issue of the National Food Situation. Suitable measures must be taken; otherwise families with low incomes, say under \$1,000, probably will have poorer diets in 1943 than those of the same wage in the late '30's. Fortunately from the standpoint of national nutrition, hardly more than a fifth of our Nation's consumer units find themselves with incomes under \$1,000 in 1942, according to the Division of Research of OPA, as compared with almost half in 1935-36.

During this period of war we face together the difficult task of safeguarding as best we can the nutrition of ourselves and our allies and of building up food reserves so that when the war is over, we can help alleviate, the present distress of food shortage in many parts of the world. There will be need for such relief when fighting stops. And when our productive efforts can be turned once again to ways of peace, may we have learned enough about planning and working together so that everyone can be assured that they will never know the want of the foods on which their health depends.



MARKETING SITUATIONS AS THEY AFFECT THE OUTLOOK

Address by Frederick V. Waugh, Assistant Administrator,
Agricultural Marketing Administration, at the
20th Annual Agricultural Outlook Conference,
October 19, 1942

The outlook for farm products is always affected by the marketing situation. Prices of farm products and the income received by farmers depend not only on the volume of production and on the size and distribution of the national income, but also upon methods of processing, transporting, and distributing farm products. Ordinarily we do not give very much special attention to these problems in the annual outlook meetings. This is simply because the marketing system ordinarily changes little from year to year. Although there have been important basic changes in marketing methods and in market organization since the outlook meetings began in the early 20's, most of these changes have been gradual trends. Their effects on agricultural prices and upon farm income have often been hidden by the effect of other factors.

In time of war we are forced to make drastic changes in marketing. Some of these changes have already been made or are clearly indicated, but as the war progresses we are likely to have to take much more drastic steps than we have so far. This will greatly affect the agricultural outlook, and although we cannot forecast all these changes, it is well for us at this meeting to review very briefly some of the principal marketing factors which are likely to affect the agricultural outlook. I shall mention seven of these factors and discuss each very briefly.

1. The expanded market for farm products. You all know that an increasing proportion of our food supplies are going to our military forces and to Lend-Lease. The AMA is now buying food at the rate of five million dollars a day, largely for lend-lease purposes. This rate needs to be stepped up. Most of our Allies in this war will need more foods than we have shipped them in the past, and supplies for our own military forces must be increased very substantially. This will become increasingly important as we send more men to distant countries overseas. We must also be prepared to feed large civilian populations in countries which we hope will be occupied by the United Nations. This means that we must build up contingency reserves and stockpiles. To do this our rate of Government purchases must be stepped up substantially. It is also clear that our own domestic consumers would be in the market for more food if we are willing to let them have it. Without question domestic consumers will face rationing on many foods, even if we do our utmost to maintain agricultural production.

2. Our capacity to market and distribute agricultural commodities. We face many important difficulties in marketing. Perhaps the most difficult is the job of transportation. Motor trucks are becoming scarce and the outlook is that the trucking situation will be much tighter for next year at least and probably for many years to come. The railroads have done a remarkable job in handling increased volume. However, the efficiency of railroad transportation probably cannot be increased much more without fairly drastic

regulations to prevent cross-hauling. Perhaps we will also need to have priorities to prevent the shipment of non-essential commodities, including some kinds of food. Ocean shipping is the worst bottleneck of all. We will need all we can possibly get. However, the rate of launching new ships now evidently is greater than the rate of sinkings.

The over-all national situation, both on dry storage and on cold storage, seems fairly good; that is, we will have enough space to store the current production and make some allowance for contingency reserves. However, in certain localities cold storage space will be limited and some steps may be needed at these points to use cold storage only for the most essential goods. The current storage situation continues very tight and will be difficult again next year.

The most difficult problems in connection with processing plants are to get adequate drying capacity for meats, dairy products, eggs, and vegetables, and to use our slaughtering plants to best advantage in handling a record volume of livestock. The dehydration program is progressing fairly well and it appears likely that the goals will be met for dehydrated pork, eggs, roller process milk and most vegetables. Our capacity for spray process dry milk and for dried cabbage is still too small.

The packaging of farm products involves many difficulties due largely to the shortage of such essential materials as tin cans and burlap. We will have to get along with less packaging and with substitute packages for many commodities.

3. Marketing costs. The over-all marketing bill for agricultural products as a whole appears to have dropped slightly from 1937 to 1941, and although marketing margins rose somewhat in early 1942 they have not yet gone up enough to fully reflect increased wages. One very important question affecting the outlook for farm products is whether marketing margins will continue to rise or whether such an increase may be held in check by price ceilings and Government price supports. There is already a good deal of complaint among processors and distributors concerning the so-called "squeeze". In some cases at least steps will probably have to be taken to handle this situation. There seem to be several alternatives: one is to allow the ceilings to be broken; another is to subsidize the processors or distributors; and still another is to take whatever steps may be necessary to reduce costs and charges in the marketing system. On paper there seem to be real possibilities in the last alternative. But to accomplish it we need concrete and specific programs for eliminating unnecessary duplication and overlapping in the whole marketing system, and we need to find some practical way of accomplishing these reforms and still maintain desirable forms and degrees of competition in the marketing system. It remains to be seen which of these alternatives will be followed, but it is clear that the farm outlook will be affected considerably by the decisions that are made.

4. Federal and State regulation. Since World War I there has been a remarkable growth of Federal, State and municipal regulations of all kinds dealing with the marketing of foods. Some of these regulations have been classed as trade barriers which have given special advantages to certain producer groups and discriminated against others. Many of these regulations are obstructing trade and interfering with the war effort. We will have to sweep away some of these regulations. A notable example of progress in this

direction is the recent agreement of most of the States to standardize regulations governing the sizes and weights of motor trucks. In addition to getting rid of trade barriers, we probably will have to consider the modification of many food laws. For example it may be desirable to require less fat in cream, ice cream, and milk, and it may be desirable to allow, or even to require, the use of soya and peanut flours in sausage and other prepared meats.

5. Distribution and nutrition programs. The distribution of foods to school children and to low-income families has been emphasized as an important part of the agricultural program in recent years. Food stamps, direct distribution to relief families, school lunches, school milk, 5-cent milk, cotton mattresses, and cotton stamps are among the devices which have been used for the dual purpose of reducing burdensome surpluses and helping needy families. The outlook during the war is that there will be few important farm surpluses; that price ceilings will be more of a problem than price supports; and that most employable people will have jobs. For these reasons many people are beginning to ask whether the Government food distribution programs should be drastically reduced or even discontinued. We should, however, remember two important facts: first, that there are still about 8 million persons in families on relief and that very few of these persons are employable even under present conditions. Second, that the distribution programs still offer a much needed safety valve for distributing such occasional surpluses as those which may arise locally because of lack of transportation and processing facilities, or those which may result from lack of shipping. It seems important, both to agriculture and to low-income families, that these programs be continued and perhaps even strengthened. Greater emphasis should be put on nutrition and on making it possible for low-income families to get their fair share of scarce foods. Obviously less emphasis should be placed on surplus removal operations.

6. Grades and standards. Official Government grades and standards will become increasingly important. It will be impossible to administer good price and marketing regulations without a more comprehensive and more widespread use of official grades. The same thing is true of price supports. This applies not only to ceilings on retail prices, but also to price supports at the farm and wholesale levels.

7. Marketing goals. Since the war we have talked a good deal about agricultural production goals, but have talked too little about marketing goals. It will be worse than useless to increase the production of any commodity in any State unless the increased output can be processed, transported, and marketed. As indicated by some of the discussion above we will have to meet very serious problems in marketing and we need to have specific plans for dealing with them. We will have less labor and less equipment in the marketing system, just as we will on the farms, and we will have to use this labor and equipment more effectively than we have in the past if we are to prevent serious bottlenecks. However, we have known for many years that substantial improvements could be made in the marketing system. There is a great deal of unnecessary overlapping and duplication which should be avoided even in peace, but which becomes a serious menace in time of war. In my opinion we can go only a short distance toward meeting these problems by orders of various kinds from Federal agencies. To solve these problems we must have

serious but quick studies by localities, States, and regions. Someone must come forward with concrete plans for improving the delivery of milk in a particular city, for the assembly of vegetables in the Southeast, or for the more effective use of such processing equipment as may be available in a given community. I would like to urge all the State marketing specialists and economists to pass along to the Department in Washington any ideas on subjects of this kind. We will see to it that they are carefully reviewed and wherever possible we will try to put the best ideas across.

1170
C2048
1942

WILL WE BE ABLE TO CONTROL INFLATION?

Address by Richard V. Gilbert, Economic Advisor to the Price Administrator, Office of Price Administration, at the 20th Annual Agricultural Outlook Conference, Washington, D. C., October 19, 1942.

I have been asked to discuss the question, "Will We Be Able to Control Inflation?". Fools rush in, it has been well said, where angels fear to tread. That is why, no doubt, the Department of Agriculture, in spite of the thousands of experts in its employ, came to the Office of Price Administration to find someone to discuss this question. Like Barkis, the OPA is willin'.

The best indication of what the future holds in store for us is, I think, in the record that has already been written. Let me review that record. In the period since the outbreak of the war in September 1939, we have witnessed the most remarkable expansion of production ever experienced by this or any other country. In that period, industrial production, as measured by the Federal Reserve Board index, has increased no less than 76 percent. This unprecedented increase has been associated with an increase of industrial prices at wholesale of only 20 percent. That, in my judgment, is a remarkable performance. Never before has anything approaching so large an increase of industrial production been achieved with so small an increase in prices.

The moderateness of this increase in prices, we must remember, has been achieved in spite of the fact that no statutory powers to control prices existed prior to January of this year. Price control during that early period, it has frequently been pointed out, was a matter of paper clips and rubber bands. The achievement, it would seem to me, is for that very reason the more remarkable. It is a tribute to the administration of price control. It is a tribute even more to the restraint and good sense of American businessmen.

During the period since the outbreak of the war, farm production has also increased remarkably. Production this year will stand 18 percent above the level of 1939 and 11 percent over the level of last year. Part of this increase is attributable, of course, to this year's exceptionally favorable weather conditions, conditions which we cannot count upon for the future. A large part of the increase, however, is the result of the Food for Freedom program and underscores the vision of the Department of Agriculture and the patriotism of American farmers.

The increase in farm production has been associated with an increase of 85 percent in the average prices received by farmers. This is a large increase, a very large increase, an increase almost as great as that which occurred in World War I, when farm prices rose, as I recall, by 123 percent. At that time, the increase in farm prices was clearly recognized as inflationary. In appraising the increase that has taken place during the past 3 years, however,

we must not lose sight of the fact that farm prices were abnormally low--were at an uneconomic as well as an inequitable level--when the war broke out. The rise in farm prices, though very large, has only restored the balance between farm prices and non-farm prices, and the balance between farm prices and farm costs which have been the goal of public policy for a decade.

Parity Index Rises

The increase of 85 percent in farm prices between August of 1939 and August of this year was no accident. It was not only permitted by the Government; it was actively encouraged by the Government, through many devices with which of course you are all familiar. At the same time, the increase in prices paid by farmers was, through the active intervention of the Office of Price Administration, held down to only 22 percent. The parity index, in consequence, rose from 70 to 107. Indeed, for the full year ending August 1942, farm prices hovered around parity and averaged better than parity. The objective so long sought has been achieved. That is worth repeated emphasis.

Taking the rise of farm and non-farm prices together, and setting that rise against the increase in production, the achievement, it would seem to me, has been remarkable. It holds promise for the future.

It is true, of course, that the period to date represents what may be termed the honeymoon stage of price control. Just because there was so much slack in our economy, it was possible to increase production to match, or almost to match, the rapid increase of demand. The pressures on prices were therefore moderate. Indeed it was only in the spring of 1941 that the situation became at all difficult. Even then, the problem was one of bottle-necks rather than one of general scarcity. Only toward the end of the year did the pressure really become acute and general.

It will be a different story from here out. Scarcities will not be the exception; they will be the rule. It is true that industrial production will continue to expand. We estimate that in 1943 the Federal Reserve Board index will average 215. Nonetheless, it is now perfectly clear that the rate of increase in industrial production will slow down and that by the end of 1943 we shall have reached our practical production ceiling for the duration of the war.

On the farm front we are even nearer our production ceiling. Unless weather conditions continue to be exceptionally favorable, it will be extremely difficult to increase total farm production beyond current levels. As a matter of fact, when account is taken of the increasing difficulty of providing the farmer with machinery and fertilizer, I think we shall be fortunate if we can maintain the exceptionally high 1942 levels. I must point out, however, that within this level of total production it is not only possible but imperative to secure a further large increase in the production of meats, poultry, dairy products, and vegetables, which are required alike on the home

front and on the battle fronts. To do so, it will be necessary to shift farm resources from the production of less essential to the production of these more essential items. This is the major war task which confronts the farmers of this country.

Demands of War to Increase

While the total output of farm and factory will continue to increase, the demands of war, already enormous, will increase much more rapidly. This year, war expenditures will total \$49 billion. Next year they will not fall far short of \$100 billion and may even exceed this figure. This year, war will absorb 32 percent of our gross output of goods and services. Next year it will absorb over 50 percent of our national output. The pressure of increasing Government demand, it should be quite clear, will be felt in every market and every county of our land.

Furthermore these requirements of war will cut deeply into the supplies of goods available to consumers, at the same time that war expenditures increase to floor proportions the incomes they receive. Individual incomes this year will total \$113 billion. We estimate them for next year at \$128 billion, an increase of 13 percent. On the other hand, the total supply of goods and services available for civilians, measured in 1941 prices, will drop if our war production objectives are achieved from \$73.1 billion this year to \$61.6 billion next, a cut of about 16 percent. The pressure upon the cost of living will be enormous. Our power to control prices will be severely tested. Can those powers prove equal to the task?

In the spring of this year, the outlook was not promising, but much has happened since then. At that time there were two fatal weaknesses in our powers to prevent inflation. First, the statute under which the OPA was operating placed severe restrictions upon the power of the Administrator to control farm prices; restrictions which made it quite impossible to stabilize the cost of foods to the American consumer. So serious were these restrictions that there was serious doubt whether the price structure as a whole could be kept under control.

Secondly, and even more important, the controls which existed at that time were controls that operated on effects rather than on causes. They were controls of prices rather than of the inflationary forces which produce price movements. Prices are themselves only the reflection of the operation of deeper forces—the forces of demand and of the cost of production and supply. The direct control of prices can, to be sure, prevent price increases for a time. It cannot hold prices indefinitely in the face of a mounting excess of demand over supply and in the face of a persistent increase in costs of production.

It was these weaknesses which led the President, on April 27, to stake out his 7-point program to stabilize the cost of living. The recommendations embodied in the President's message to the Congress were designed to eliminate these weaknesses. To enable price control to be extended to the entire price structure, the President recommended

APR 1, 1944

amendment of the agricultural sections of the Price Control Act. To eliminate the second fatal weakness, he recommended that controls be extended to cover the basic inflationary forces as well as the prices reflecting those forces. These recommendations fell into three broad groups:

(1) The checking of the inflationary growth of purchasing power through the stabilization of farm, of wage, and of other incomes.

(2) The reduction of the excess of purchasing power over available supplies, through increased taxes, increased savings, and the repayment of consumer debt.

(3) The stabilization of costs of production, through the extension of price control to cover the cost of every material or service entering into industrial and farm production, and through the stabilization of wages and salaries.

General Maximum Price Regulation Issued

I need hardly remind this audience that the performance in the months following April 27 fell considerably short of the President's objective. The Office of Price Administration, at the President's direction, issued the General Maximum Price Regulation which extended price control to virtually every commodity at all levels of distribution. At the same time, orders were issued designating for rent control areas in which 86 million Americans dwell. By these measures, the OPA extended price control to the very limit permitted under the statute, bringing 87 percent of the cost of living and 60 percent of the food sold at retail under regulation.

The other element of the President's program, however, lagged very seriously. The Congress did not amend the Price Control Act as the President recommended, the tax bill remained under debate, and the effort to stabilize wages fell far short of what was required. During the summer, it became increasingly clear at the OPA that we were losing the fight against inflation. The action taken by the Office did cut down the increase in the cost of living from an average monthly rate of 1.1 percent, to an average monthly rate of 4/10 of 1 percent. This was a significant achievement in which we take pride. Nonetheless, the cost of living continued to rise. It rose because, under the statute, the OPA was unable to bring all food prices under control. On this point the figures leave no room for doubt.

In the 3 months from mid-May to mid-August, non-food prices, all of which were brought under control, were held firmly or cut back. Thus, rents were reduced by 2 percent, the price of clothing by 1 percent, and the prices of house furnishings, fuels, and miscellaneous items were held at the levels which prevailed in mid-May, when the General Maximum Price Regulation became effective.

The same was true of the controlled foods. The General Maximum Price Regulation brought under price control 60 percent of the foods, all that the statute permitted. The prices of these controlled foods, which in the year prior to May increased at an average monthly rate of 1.6 percent, declined thereafter by 1/10 of 1 percent a month. On the other hand, the prices of the 40 percent of the foods which were not controlled, moved up sharply. These had been increasing at an average monthly rate of 1.8 percent before May. Between May and August, they increased at 3.3 percent per month, or 40 percent per annum. It was this increase in uncontrolled food prices which forced up the cost of living.

The figures therefore leave no doubt that it was inability to control farm prices which accounted for the continued rise in the cost of living. What was really ominous, however, was not the rise in the prices of uncontrolled foods, large though that was, but the increasing pressure which rising farm prices were bringing to bear upon the retail prices of those foods which were under control. We were obliged to permit the breaching of the ceiling in a number of important cases, notably those of canned fruits and vegetables and dried fruits. The line by which we held many other prices was growing thinner every day. Unless the power to control all farm prices was quickly provided, it was perfectly plain to us in August that the effort to hold the cost of living must fail.

Increase In Individual Incomes

While the rise of farm prices was the more visible of the threats to the cost of living, the failure to bring the basic inflationary forces under control was equally dangerous. Individual incomes, which in the period preceding May increased on the average by 2 percent a month, continued to increase at that rate. Wages and salaries, which had been increasing at 2.6 percent a month, likewise continued to rise at the same rate. In a word, the income stabilization called for by the President was not achieved.

With regard to the absorption of purchasing power, the results were equally bleak. Failing the enactment of the tax bill, we continued under a peacetime structure of taxation. While the Board of Governors of the Federal Reserve System sharply tightened the controls on consumer credit and the Treasury intensified its efforts to divert purchasing power into war savings bonds, these combined programs resulted in an increased annual absorption of purchasing power of only \$2.4 billion. This fell far short of the increase in individual incomes during the same period. Individual incomes rose from an annual rate of \$109.5 billion in May to a rate of \$116.4 billion in August, an increase of \$6.9 billion. Thus it is clear that the efforts of the Treasury and the Federal Reserve Board did not prevent an actual increase in the excess of purchasing power, let alone reduce that excess.

To put the situation baldly: disposable income--that is, income after personal taxes--was increasing at a rate of \$2 billion per annum every month. The aggregate available to civilians was decreasing at a rate just short of \$1 billion per annum every month. The excess of disposable income over supply, in annual terms, was increasing at the rate of \$3 billion per month.

Finally, we were losing the fight to stabilize costs of production. Unit labor costs, which in the year ending April rose at an average rate of 1.1 percent a month, continued to rise at the same rate. Obviously no price structure can be held in the face of persistent cost increases of this magnitude. While few price ceilings were actually reached in consequence of this factor, it was abundantly clear that our grip on the price structure could not long be maintained.

This, in brief, was the alarming situation which prompted the President's message to the Congress on Labor Day and to the swift enactment of a new price bill. On October 3, by Executive Order, the President established the Office of Economic Stabilization, placing it in the hands of the Director with powers to effect economic stabilization. The President has issued the necessary orders. The question I have been asked to answer is, will the job he has started out be done?

I propose to break this question up into three parts. First, as a matter of economics, is it possible to hold the cost of living at present levels? That is to say, as Leon Henderson would put it, what is the arithmetic of the present situation? Second, are all the powers available which are necessary to do the job? Third, have we the will to use those powers in the full measure that is required?

Arithmetic of Inflation Control

First, the question of the arithmetic. In spite of some further increases in costs of production, which is no inevitable, there is, in my judgment, ample elbow room to permit us to hold prices at their present levels. This is true of all primary products of agriculture alike. I do not mean to give the impression that the success of our efforts to stabilize costs of production, including costs both of materials and of labor. I do mean, however, that the cost increases which cannot be adjusted can be absorbed out of profits and out of net farm income within the framework of existing prices.

Of course, in the long run, there can be no doubt that the current level of profits provides ample elbow room to absorb cost increases.

In the period 1936-39, corporate profits before taxes averaged \$4 $\frac{1}{2}$ billion. Last year they totalled \$14 $\frac{1}{4}$ billion. This year we estimate that they will reach the fabulous total of \$19 billion, an increase of 325 percent above normal peacetime levels. These earnings obviously permit of very substantial cost increases before profits at present prices are reduced to levels which need occasion concern. This does not mean that, in the face of some inevitable increase of costs, the earnings of every firm can be maintained; nor even that every firm can be kept in business. It does mean, however, that a substantial increase of costs can be absorbed without bringing profits before taxes for industry generally down to levels which would require upward price adjustments to maintain production.

Furthermore, let me repeat, this does not mean that we must not exert every possible effort to stabilize costs. Continued increase in unit costs, at the rate which has prevailed in recent months, would inevitably destroy the stabilization program. Moreover, it must not be forgotten that a large fraction of profits before taxes is earmarked for the tax collector. Tax increases which reduce profits before taxes therefore come in substantial part out of the public treasury. Such wage increases, therefore, not only increase labor costs; they also decrease Government revenues that are urgently needed for financing the war, and at the same time increase the excess purchasing power in the hands of consumers.

Elbow Room for Control

It may be argued, of course, that what industry can stand depends upon profits after taxes rather than profits before taxes. This is perfectly true. It should not be forgotten, however, as I have just pointed out, that a very large part of every cost increase is borne by the Treasury, rather than by the industry affected. Cost increases reduce profits after taxes much less than they reduce profits before taxes. In any event, the situation with regard to profits after taxes is also very favorable. In 1941 corporate profits after taxes totalled \$7.7 billion, 131 percent above the 1936-39 level. We estimate that this year they will run at about the same level. Thus it would take quite a reduction in profits after taxes to bring them below the level to which industry in general was adjusted in the period before the outbreak of the war. I think you will agree with me that, however, one looks at it, there is enough elbow room to permit us to say that, given reasonably effective control of costs, industrial prices can be held at their present levels.

On the farm production front, the situation is also extremely favorable, far more favorable than most people realize. Farm prices are in exceptionally favorable position in relation to costs, in spite of the fact that costs have risen sharply in recent years. Since 1939, the total farm wage bill has increased from \$696 million to \$1,065 million, an increase of 53 percent. In the same period, all farm production expenses, including the cost of goods used in production, depreciation and maintenance of durable implements, equipment, farm buildings, and farm dwellings, have increased from \$5,497 million to \$7,650 million, an increase of 39.2 percent. These increases have been large; there is no doubt about that. Nonetheless, the fact is that the increase in prices and in farm income has far outstripped them. Gross farm income, adjusted for inventory changes, and including Government payments, has increased from \$10,671 million to \$18,500 million, an increase of 73 percent. In consequence, net income of farm operators--that is to say, income after all expenses--has increased from a level of \$4,478 million in 1939 to \$9,785 million this year, an increase of no less than 118 percent. This is the highest level ever reached in our history. It exceeds by a full billion dollars the peak level of 1919.

While this marked improvement has not been uniform among all crops and all types of farms, nevertheless all have shared substantially in it. Let me read you the following figures, which show the increase in net farm income for typical commercial family-operated farms:

Type of Farm	Increase in Net Farm Income Between 1939 and 1942 (Percent)
Dairy farms	
Wisconsin	128.3
New York	100.7
Corn Belt farms	
Hog-dairy	116.9
Cash grain	124.6
Hog-beef breeding-fattening	176.3
Hog-beef raising	163.5
Cotton Area farms	
Georgia 2-mule	128.7
Mississippi Delta 2-mule	96.1
Texas black waxy prairie	111.8
Virginia Tobacco farms	
Flue-cured	117.2
Fire-cured	178.8
Winter wheat farms	
Wheat	204.5
Wheat-corn-livestock	163.3
Wheat-grain sorghum-livestock	176.8

While for some crops and for some types of farms, further increase of income will probably be necessary to insure maximum production, these figures make it clear that here too there is elbowroom for the absorption of such cost increases as cannot be avoided in wartime. What are these unavoidable cost increases? The farmer, as you all know, is going to have difficulty in obtaining the machinery and fertilizer he needs. That's going to

increase costs. In view of the drain being made on the farm population by the armed services and the war industries, the quality of the farm labor that will be available will be lowered and its productivity will be less. Furthermore, farm wages will unquestionably edge upward in some areas.

In all these ways, unit costs in farming are going to increase. These increases, I think, can be absorbed and still leave farmers in an extremely favorable position. I do not mean, let me repeat once again, that stabilization of the cost of materials and stabilization of farm wages is not imperative. Quite the contrary. I do mean, however, that the farmer is in better position today than at any previous time in our history; in better position, let me repeat, than he was in the wonder-year of 1919. This is an ideal time, therefore, to stabilize farm prices and farm costs.

Such stabilization will assure to the farmers, for the duration of the war, better returns than they have experienced in generations. Farmers, I recognize, will face difficult problems in the years ahead. Farmers must radically alter the kinds of goods they produce to meet the requirements of war. They must do this in the face of inadequate equipment, inadequate fertilizer, shortage of labor, and even other factors which do not occur to me though they are very real to you. This is part of winning the war and I am sure farmers will recognize it as such. I believe that what we are now doing to stabilize the prices farmers pay as well as the prices they receive will not only provide very favorable earnings but, what is equally important, will eliminate the risks, the uncertainties, that are entailed in unpredictable movements of prices and costs. The significance of this will, I am sure, not be lost on this audience.

To summarize, so far as the economic arithmetic is concerned, I can see no reason why it should not be possible to hold prices, both farm and non-farm prices, at their current levels.

Are Present Powers Adequate for Control?

Let me turn now to our second question: Have we adequate powers to do the job? I think that, with one exception, the answer plainly is yes. The one power which is still lacking is the power to deal directly with manpower problems. The direct control over the distribution of manpower, while it implies an interference with personal freedom which would be intolerable under normal circumstances, is a power which no belligerent has been able to do without. Wage stabilization, like price fixing, removes price as a technique of allocating resources--manpower resources in the one case; materials resources in the other. Just as the fixing of prices requires that scarce supplies be allocated and rationed, so that materials may be used as the public interest requires, so wage control means that manpower must be directly allocated, in order to bring the Nation's manpower to bear where the imperatives of war dictate. I think this is recognized generally and that the time is not far distant when this last power needed to fully mobilize the Nation for the prosecution of the war will be provided.

Stabilization of Wages Viewed

This brings me to the last question: Have we the will to do the job? Let me start with incomes. I am sure that running through the minds of

this group, in view of the events of recent months, is the question: Will wages actually be stabilized? I think the answer is yes.

The difficulty in the months following April 27 was largely in the field of voluntary wage increases, increases outside the jurisdiction of the War Labor Board. Wage demands, stimulated by increases in the cost of living, were willingly met by management. Earnings, as I have pointed out before, were extremely favorable, and manpower needs were growing more and more acute. It became apparent that in this field, as in the field of prices generally, the normal operation of competitive forces meant inflationary increases. These increases the War Labor Board, with its jurisdiction limited to cases in dispute, was powerless to prevent. If stabilization was to be achieved, the jurisdiction of the Board had to be extended to cover all wage negotiations. This extension of jurisdiction has been effected by the Executive Order of October 3. In view of the vital role which wage stabilization must play in the national program for economic stabilization and in view of the fact that the cost of living has now been stabilized, I am confident that wages will also be stabilized.

Fortunately, stabilization of wages at current levels will permit labor generally to enjoy the most favorable position it had ever attained. In this respect, wage stabilization parallels the stabilization of farm prices. In the manufacturing industries, average hourly earnings in May were 31 percent above the level of August 1939. Allowing for the increase in the cost of living, they were up 11½ percent. The advance in weekly earnings has been even more striking. By May of this year they were up 53 percent from the August 1939 level. Again making allowance for the increase in the cost of living, they showed an increase of no less than 30 percent.

It must not be overlooked, however, that it is in the field of manufacturing that the position of labor has improved most. Elsewhere developments have not been quite so fortunate. For all nonagricultural establishments together, the increase in average hourly earnings has been entirely offset by the increase in the cost of living. Weekly earnings, however, after allowance for the rise in living costs, stood in May 9 percent above the pre-war level. In the case of three important groups of workers, the economic position has actually deteriorated; namely, those employed in trade, Government, and finance. In all three cases, both hourly and weekly earnings have risen considerably less than the increase in the cost of living. Wages in some of these cases, particularly in the lower brackets, must be increased, both in simple justice and to maintain health and efficiency. Nonetheless, the basic proposition stands: the over-all wage position is extremely favorable. The total wage and salary bill this year will come to \$76 billion, 74 percent above the level of 1939. This wage and salary bill exceeds the entire national income of any year in the 30's.

It is the farm wage question, however, in which you who are concerned with farming are primarily interested. The Director of Economic Stabilization has just placed in the hands of the Department of Agriculture the formidable task of stabilizing farm wages. I am confident that the Department will lick this problem, as it has licked every other to which it has addressed itself.

All things considered, I am confident that incomes--farm incomes, wage and salary incomes, as well as profits--will in fact be stabilized for the duration and the threat to economic stabilization from this quarter will be ended.

Outlook for Taxation Policy

Turning next to the question of absorption of excess purchasing power, frankness compells me to say that we are not likely to have a tax policy as tough as is needed. The tax policy will be tough, make no mistake about that, and it will get tougher all the time, but it will never be as tough as the situation calls for. There is something awfully final about taxes. No democratic country--for that matter, no belligerent whatsoever, democratic or otherwise--has made adequate use of taxation, or will do so. We've just got to reconcile ourselves to that. Compulsory saving is measurably more palatable than taxation. In the tax bill just passed there is a compulsory saving feature, and we may expect to see this technique put to wider use in succeeding revenue bills. Nevertheless, the excess of purchasing power over available supply is so great and is increasing so rapidly, it is unlikely that any combination of taxes and compulsory saving will be adopted that will fully measure up to the need.

This means that the volume of purchasing power will not be brought down into balance with the supplies available for consumption. There will be billions of dollars seeking goods which will not be there. This will place upon the OPA, which is charged with the responsibility for rationing, a much larger burden than it would be called upon to bear under ideal circumstances. Rationing is perhaps the toughest administrative job in the entire program. It is tough not only on the rationing agency; it is equally tough on the retailer and on the consumer. Here too, the experience of other countries demonstrates that the action taken is always less than fully adequate and always late. Nonetheless, that experience demonstrates that a reasonably effective job does get done. I think that will be our experience too. If I may be forgiven some boastfulness in a good cause, I think the job we shall do will be better than average. The necessities will be distributed on an equitable basis.

There is one final point which troubles me. This does not concern the will to do the job; it concerns the kind of job it is we want to do. At the OPA, we long ago made up our minds that price increases, as a technique for stimulating production, must be washed out for the duration. Under normal circumstances, as everybody knows, prices are the instrument by which production is adjusted to changing demand. A rise in price encourages the flow of resources to the production of the commodity in question. A price decline drives resources to other and more profitable employment. Under war conditions, however, with demand insatiable and everything scarce, price increases cannot serve their normal function. When all prices rise, all costs rise likewise, for, if I may quote Leon Henderson, "one man's price is another man's cost."

Price Rises Hamper Production

The result of a general rise of prices is not a general increase of production. Quite the reverse. Production is not stimulated by a general rise of prices. It is hampered by such a rise and, under conditions of acute inflation, may become completely demoralized. The reasons are not far to seek. Rising prices make the future movements of both costs and prices unpredictable. Neither the businessman nor the farmer will make commitments when future costs, as well as future prices, are unpredictable. On the

other hand, the speculator has a field day. Anybody can make money by simply holding goods against a further rise. Goods which should flow through the productive process are held all along the line in idle hoards. The mad scramble for self-advancement and its effects on public morale in time of war hardly need elaboration.

But the basic objection to inflation is that it sabotages the war production program. Is it not absurd to establish an order of production priority in terms of the requirements of war strategy, to say in effect that planes must come before trucks and machine tools before shoe machinery, and then, having done this, to permit the producers of these goods to compete freely in the open market to determine which shall have the raw materials, the facilities, the manpower necessary for production? It was for this reason that the decision was made early in the defense program to wash out price as a technique for economic mobilization and to secure that mobilization through direct control of the flow of resources. This decision, I may say, is grounded not only in logic but on our experience and the experience of all other belligerents in the last war. It has been axiomatic ever since, that in wartime inflation cannot be tolerated.

I do not mean that production will not suffer if the price of any product is fixed at a level which does not cover costs and provide reasonable earnings. Nor do I mean that it will not be necessary from time to time to increase the earnings of a particular group of producers in order to make possible an expansion of production. What I do mean is that the instrument of price can prove effective in wartime only if used very sparingly. A generous use of this technique defeats its own aim.

Now there are many farmers--and, I think it fair to say, some people in the Government--who, while they are entirely willing to agree that price control for industrial products is a very good thing, indeed that it is essential to the effective prosecution of the war, are quite as fully persuaded that an increase in some farm prices would make it easier to secure the increase in production which we need. And there are many businessmen who, while they feel that it is imperative to stabilize farm prices in order to hold the cost of living, believe a little more "gravy" would grease the wheels of industry and speed the production of those vitally needed goods which it is their responsibility to produce. Here again there are some people in Government who would like to see the price instrument used to facilitate war production. The same can be said of rubber, of petroleum, and indeed of every important item right across the board. In every case, while people are convinced that sparing use must be made of price increases, the product for the production of which they are responsible comes first on the list of the few exceptions.

If prices are to be stabilized, the answer in almost all these cases will obviously have to be no. In some cases--in my judgment, they will be few--it will unquestionably be necessary to increase the returns to the producer. In these cases, those returns should be provided directly through Government payments, so that the structure of prices can remain inviolate. The cost to the Treasury of such payments will be only a fraction of the cost to Government and consumers generally which a price increase would entail. For at every stage an increase of price becomes an increase of cost, upon which is based a further price increase. By the time the original

price increase has worked its way through the price structure, the final cost to the Government or the consumer, as the case may be, will be a multiple of the original increase. What is more important, the pressures upon the price structure are today so enormous and are increasing so rapidly that if our grip on prices is permitted to slacken at any point, there is no telling how far prices in that area of the economy, or indeed in the entire economy, will go before they can again be brought in check. Nor is this merely a question of the mechanical impact of one price on another. Every price increase creates claims in a score of other quarters for similar increases. Everyone is acutely aware of the exceptional circumstances of his own case. If we operate on this basis, we are lost. If I may paraphrase a famous American statesman, the way to stabilize prices is to stabilize them.

The chairman has asked me to answer the question, "Will we be able to control inflation?" The answer, I think I have made clear by now, is yes. If I may be permitted to introduce a note of caution at this late stage, I should say, God willing, the answer is yes.

1170
C20u8
1942

FARM PRICE CONTROL: WHAT'S AHEAD?

Address by A. C. Hoffman, Director, Food Price Division, Office of Price Administration, at 20th Annual Agricultural Outlook Conference, Washington, D. C., October 19, 1942

Agriculture and the food industries are operating today under wartime controls. Supply, demand, and price--the three great economic variables which the Outlook Conference has traditionally sought to evaluate and predict--will, for the duration of this war, be governed largely by the nature of those controls and the national policy followed with respect to them. Never before, even in war, have agriculture, labor, and industry been called upon to fit themselves into such a drastic program of public control. Regardless of what any of us may think about the role of Government in a peace-time economy, there is, I believe, almost unanimous agreement that in this emergency there is no alternative if we are to avoid a complete inflationary fiasco.

At the present time, 90 percent of the nation's food budget is under price control at the processing and distribution level. Obviously, farm prices and farm income over the next year will depend to a large extent on the Government's policy regarding food price control.

The topic assigned to me today, implies that I am to try to predict for you what that policy is likely to be. But I am one of Howard Tolley's old pupils in the B.E. and I know a little about prudent Outlook technique. So what I propose to do is to lay some of the major issues before you and let you make your own predictions.

The Congress has recently passed new price-control legislation, on the basis of which the President has issued a clear directive that living costs shall be stabilized. With the proper supporting measures, I believe that living costs can be stabilized, but I want to make it clear that price control alone cannot do the job. The Government cannot simply decree a price level, although all too many people in this country still seem to think it can.

In the first place, agricultural production must be maintained at the highest possible level consistent with the over-all war effort. Farm prices are one of the factors which must be taken into account in maintaining this production. But I do not wish to be misunderstood as saying that higher farm prices are the answer to our production problem, or even that they are the major factor in this problem under wartime conditions.

Limiting Factors On Output

The old text books in economics teach that the higher the price of a commodity, the greater the supply. From this point, a great many have gone on to the conclusion that the higher the level of farm prices, the greater will be the total output of farm products. Of course we can increase the supply of pork or potatoes by increasing the price of these products in relation to prices of other farm products from which land and labor can be quickly diverted. But this is entirely different from saying that total agricultural production can be stepped up in a war economy by raising the whole farm price-level higher and

higher. What I am saying is that the limiting factor to increased farm production from this point on, in this war, is not so much price as it is manpower, farm equipment, and processing supplies.

The goal of maximum farm production is not inconsistent with the President's directive that living costs be stabilized, provided that the Government agencies involved use all the resources and ingenuity at their command. So far as price control is concerned, this means that we must provide flexibility as between the prices of different farm and food products by raising the prices of some and lowering the prices of others as we go along. It means also that the various production-control programs of the Department of Agriculture ought to be equally flexible, so that agricultural resources can be used to the maximum and directed into those channels where the need is greatest.

Despite what the OPA can do with price control and what the Department of Agriculture can do with its production control programs, I do not believe food prices can be held at present levels over the next year without the use of subsidy monies. In the case of some farm commodities, either subsidies or higher prices to producers will be necessary to call forth the needed production. In the case of other products--notably wheat, corn, and the other feed grains--the farm price provisions of the price control legislation are such that prices cannot be stabilized at present levels without the use of subsidy funds.

By this time it has become superfluous to point out that living costs cannot be stabilized unless all the factors entering into these costs, including wages and profits, are also stabilized. The recent legislation and the President's subsequent action regarding wages and salaries should insure this general stability. We cannot be sure at the moment how closely the wage situation will fit into the exact level of ceiling prices on processors and distributors which have been in effect for the past six months. On the whole, however, I think we can be optimistic on this score if the clear intentions of the Congress and the President are carried out.

Pressure Upon Stabilization Program

But this is not all the nation will have to do if it intends to stabilize living costs. The whole stabilization program will be under terrific pressure from increased purchasing power on the one hand, and from a decreasing supply of consumer goods on the other. Taxes, savings, rationing--all these things on a scale not yet even approached--must go along with stability on the price front if the program is not to break down.

I have tried to sketch the main factors which, along with price control, will determine the success or failure of the national effort to avoid inflation. I leave to you the prediction of whether or not the nation has the social courage to carry them out.

In the time I have left, I should like to tell you briefly about the methods and principles which the OPA expects to use in its administration of price control in the food field as we now use it. We began, as most of you know, with selective price fixing on certain food products more than a year ago. The first major products to be put under control were sugar, pork, and canned fruits and vegetables. These controls were put at the processing and wholesale levels, and they were admittedly loose.

It became clear nearly a year ago that we should have to move on a much broader front and in a more rigorous fashion if prices were not to get completely out of hand. Early in May, the OPA issued its General Maximum Price Regulation, freezing at all levels except the farm level the prices of as many foods as could be included under the provisions of the existing price-control legislation.

Now the General Maximum Price Regulation was not a perfect price-control instrument, and we realized that at the time. Without stabilization of wages and farm prices and all the other points made by the President in his message to the Congress at that time, all of us knew that the March level of food prices could not be permanently held. But there was one thing which that regulation did do--it slowed to a walk the increase in prices until the necessary supporting measures could be taken. The mechanics of food price control embodied in that over-all freeze regulation were also very crude; and it is our aim to rectify them as rapidly as possible.

The regulation provided that each processor and distributor could not sell above the highest price at which he sold in March. In other words, each seller has his individual ceiling, depending on the circumstances in which he found himself in March. As rapidly as possible, these individual firm ceilings at the processor level as they existed under the General Maximum Price Regulation are being replaced by definite dollar-and-cents price schedules, which will be the same for all processors operating in a given market area. This will have the obvious advantage of putting all similar processors on an equal footing, and will at the same time provide the OPA a better instrument for insuring compliance with price-control regulations.

Prices At Retail Level

At the retail level, most food prices are still under the General Maximum Price Regulation in the sense that the prices of each retailer are frozen to his highest March prices. For a variety of reasons--(1) the time-lag between retail and processor prices, (2) the farm-price provisions of the Act, and (3) increases in wages and other costs subsequent to March--we have had to break those March ceilings on some foods, notably canned and dried fruits and vegetables and their derivative products, and fluid milk in some markets. With every resource at our command, including a long struggle to get subsidy funds, we tried to hold those ceilings. We broke them only when every other avenue failed.

As a technique for price control, freezing the price of each retailer as of some base period is no more satisfactory than were the individual firm ceilings at the processor level. Therefore, as rapidly as possible, we are going to move toward the replacement of these retail March prices with margin control at wholesale and retail levels of distribution. That is, each type of retailer and wholesaler will have a margin above his purchase cost of a commodity which he cannot exceed in pricing his goods to the consumer. The margins will be varied by type of distributor, with chain-stores and low-cost operators held to lower margins than are other types of retail distributors.

This type of control will have obvious advantages over the present control mechanism. It will put food distributors upon a more equitable basis with respect to each other, the control will be easier for the OPA to enforce, and there will be a measure of flexibility in that these margins can move up or

down as prices at the processor level are changed seasonally or for any other reason. I can't tell you just when, or for what specific products, these margin controls will first be used, but we will go in that direction as rapidly as possible.

With a few minor exceptions, no ceilings have yet been placed directly on the farm product as it leaves the producer's hands. From the standpoint of administration, price control at the farm level is so difficult and complex that the OPA was loath to undertake it except as a last resort. We had hoped that food processors could continue to bid for produce under their ceilings so that the farm prices would bear their proper relationship to the processor's ceilings.

Processors Bid Up Prices

The experience with livestock prices, and to a growing extent with prices of other farm products, demonstrates clearly that when supply is short in relation to demand, the tendency is for processors to bid the price of raw material up to the point where a substantial number of them are faced with ruination unless their ceilings are lifted. The OPA does not propose either to lift its ceilings or to ruin any substantial segment of a food-processing industry so long as any recourse is available.

There are only two alternatives; subsidy, or ceilings directly on the farm products themselves. Where the farm price is up to the level specified by the price-control legislation, and with the concurrence of the Secretary of Agriculture as required by that legislation, the OPA will not hesitate to move toward the imposition of ceilings directly on farm prices, if the alternative is a ceiling break at some subsequent stage of the marketing system. Price control at the farm level is so inherently difficult to administer that we cannot rush into it blindly and shall always use it only as a last resort. My own feeling is, and has been from the first, that it cannot be avoided as part of an over-all price-stabilization program.

In closing I should like to make one thing clear on behalf of Leon Henderson, J. K. Galbraith, and all of us in the OPA. From the first, the OPA and people in it have not hesitated to say publicly what measures they honestly believed would have to be taken if this nation were to avoid inflation. For saying bluntly that farm prices and wages would have to be stabilized if living costs were to be held, the OPA has on occasion been wrongly accused of being anti-farm and anti-labor. And for putting price control on the food industries without control of these other factors, we have sometimes been accused of being not only anti-business, but crazy as well.

I wish I could make it clear to you, and that you in turn could help make it clear to the rank and file of farmers with whom outlook workers come into daily contact, that the OPA is not anti-anything except anti-inflation. In accordance with the legislation provided by the Congress, and under the broad administrative direction of the President, we aim to administer price control without bias for or prejudice against any economic group in this country.

90
2048
1942

FOOD RATIONING AND AGRICULTURE

Address by Harold B. Rowe, Director, Food Rationing Division,
Office of Price Administration, at 20th Annual Agricultural
Outlook Conference, Washington, D. C., Oct. 19, 1942

When I was asked to talk to you on food rationing, my first instinct was to beg to be excused. It is not too early to say that food rationing is going to be necessary on a rather broad scale, but it is too early to forecast the time at which particular commodities will be rationed or how their rationing will work. Plans and policy are still in process of formulation. You will forgive me therefore if I submit to you a few general thoughts rather than detailed plans.

Rationing in its widest sense now means distribution of national resources on the basis of wartime needs, instead of through the free play of the price mechanism. In the case of munitions the Government directs the use of materials, manpower and transportation in accordance with priority ratings or definite allocations. To the extent that we approach the maximum war effort of which the country is capable, this implies the maximum possible restriction of civilian consumption -- in the President's words, "stripping our civilian economy to the bone." Any commodity must be regarded as a candidate for rationing if the limitation of its use will release needed resources -- that is to say, either materials, plant facilities, manpower, or transportation -- for the war effort. Indeed, one may say that, in modern war, if a particular commodity isn't short, it usually ought to be.

We need to lay particular emphasis on the positive goal of releasing resources for essential war purposes. Full employment and higher earnings create an increased demand for civilian goods, just when we need to use all our resources for winning the war; and the more supplies of durable goods -- such as cars and household equipment -- are restricted, the more purchasing power tends to be concentrated on other consumer goods, particularly food and clothing. So long as prices are not allowed to rise, this leads to a growing excess of demand over the supply available. Hence the need for consumer rationing, both to cut down demand and to spread supplies as evenly as possible.

Until recently people were inclined to say that there would be no shortage of food in this country. For years we have been faced with surpluses and low returns to the farmers. A year ago it needed imagination and courage to plan for increased food production. When hogs were at less than 8 cents per pound, Secretary Wickard boldly called for more hogs to meet the anticipated needs of our Allies. Farmers responded and hog numbers have now reached a record height. Yet prices have doubled and we are faced with a shortage rather than a surplus. As we all know, the main reason for this increased demand is that increased expenditures by the Government are generating purchasing power faster than hog production can be increased.

Surplus Demand

The unsatisfied demand for meat at the present time probably represents a deficiency of supply of at least 25 percent. In the depression years, the problem of surplus supply was really a problem of shortage in demand. So now the problem of shortage in supply is really one of surplus demand. Unfortunately, surplus demand is an elusive concept not so easy to recognize or to measure statistically as surplus supply.

We have been too much inclined to compare statistics of food supplies with past years, and to point to increases that have been or are taking place and then to argue that there can be no real shortage. True, supplies in sight may be as high as before the war, or higher, and yet be totally insufficient to meet swollen war time demands. Take sugar for example. When we started rationing sugar there were those who argued that this was unnecessary. They thought, wrongly as it turned out, that the supply would be as great as it had been before the war. But they forgot that the demand had risen and would go on rising.

We know that as you go up the income scale, consumption of some foods such as cereals falls off, while that of meat, milk, eggs, and fruit rises. Increased consumption of animal protein foods and fruit represents a higher standard of living. Already our national consumption of these foods is among the highest in the world. The question we as a nation have to face now, is not whether we can raise our civilian consumption still further, and not even whether we can maintain our present level of consumption, but rather to what extent we can economize and reduce our consumption in order to supply the armed forces, and our Allies.

It may be said: "Very well then, tell us the percentage cut to make and let us all reduce our consumption accordingly." Obviously that won't do. Even if it were administratively feasible, it would not be fair. For the lowest income groups cannot consume less, without falling short of minimum nutritional levels. If they are to contribute their maximum to war output, many workers need more and better food than they were able to get when they were unemployed or partially unemployed in peacetime. The major cut must fall on those who have had enough and more than enough in normal times. Restriction of total food consumption is thus not incompatible with actual improvement in the average nutrition of the nation. If, for example, no one takes more than $2\frac{1}{2}$ pounds of meat from the national larder, not only will total consumption be cut down, but people who formerly had less food will be better fed. So with milk. If there is not enough to go round, we must somehow arrange to give priority to mothers, children and adolescents for whom it is an essential food. That is the essence of wartime food rationing.

Adaptation to War

Now a word as to the bearing of this situation upon agriculture. First, I suggest that we must not expect too much from increased production: there are very definite limits to the rate at which the supply of milk, meat, fats and other foods can be increased. We shall indeed do well if overall production of food can be maintained at its present level. One of the chief reasons of course is the shortage of manpower. Agriculture has to make its contribution of men to the armed forces, to shipbuilding and to munitions production, just like other industries catering to civilian needs.

Not all forms of agriculture are equally essential. Some curtailment in transportation facilities for long distance haulage of luxury fruits and vegetables may even be necessary. We cannot ask for absolute priority for all and any foods. We must be prepared to steer productive effort and use of marketing facilities into the most useful channels. The wartime pattern of food production needs to combine maximum stimulation of some products, with curtailment and possibly even prohibition, of others. Only in this way can we expect to make the most effective use of our limited resources of manpower and materials.

The broad point of view which we in the work of rationing would like to contribute is that agriculture, in so far as it is an industry producing for civilian use, must adapt itself to the same conditions as govern other civilian industries in wartime. Food industries have no absolute call on our national resources of manpower and materials for the purpose of maintaining maximum production; but only for those needed in producing for essential--- and curtailed --- civilian needs, in addition to the requirements of our armed forces and lend-lease. It is not food that will win the war, but food produced in a manner to cover our essential needs, with a minimum use of resources that are needed in other parts of the war effort.

Secondly, farmers have a special and direct responsibility for the success of rationing. Not only must we ask them to accept voluntarily the same rations of food as the rest of the nation, but we shall need their full cooperation in not selling to others outside the authorized ration amounts, which would thereby create a black market. We have no intention of trying to police every farm. To enforce strict rationing of locally-produced food in rural areas by a system of licensing and penalties, as is done in Germany, probably would be impossible in this country. We must largely rely on the patriotism and public spirit of American farmers to make rationing a success. That is why we shall welcome your active cooperation in explaining to farmers both the need for rationing, when it comes, and the precise way in which we shall be counting on them for their help.

Point Rationing System

Lastly, a word or two as to specific plans. Because of the interrelation of the shortages, most food products will be subjected, not to individual rationing, but to so-called group or point rationing. That is to say, we may group protein foods in one class, canned fruits and vegetables in another class, and so on. The consumer will receive a number of points which he may apportion at his discretion among the foods of a given class.

The advantage of the point plan is that it permits maximum maintenance of consumer freedom of choice, while accomplishing the primary objective of an equitable apportionment of reduced supplies. Under the point system, everybody will be assured of his minimum nutritional needs and of enough variety to satisfy individual tastes. The point system also permits the rationing authorities to shift consumption from one item to another, in accordance with changes in supply, by varying the point-equivalents between items in the same group. Above all, the point system permits us to dispense with a rigid allocation of supply to meet consumer demands in all areas. We are not going to worry too much if, on account of local conditions, a particular item may not be available at all stores; another item of the same class will be available, and it will be no great hardship to the consumer if he has to forego his first choice.

APR 11 1944

To ration the food consumption of a nation of 130,000,000 people is a tremendous task. Just how tremendous it is can be seen from the fact that it takes the Government Printing Office two and a half months to print and distribute to rationing boards the ration books required for two items or two groups of commodities.

No matter how flexible we are going to make our rationing program, no matter how much thought and planning we put into it, I am sure that we are not going to be able to avoid annoyances, irritations and even hardships. There will be plenty of these, both for the agricultural producers and above all for the consumers. That can't be helped.

We are not embarking on a rationing program either of our own free will or with a light heart. We are embarking on it under the compulsion of events. We are embarking on the program because there is no other way to win a total war.

10
-2048
1942

BRAKES ON SPENDING

Address by Ruth W. Ayres, Office of Price Administration,
at the 20th Annual Agricultural Outlook Conference,
Washington, D. C., October 20, 1942

Brakes on American spending!

Why are we planning to achieve them?

We are accustomed to think of spending as a process for achieving goods and services. If, however, we spend our war income as we earn it, it will not be to get more goods and services, but merely for the joy of spending and, by so doing, raising the prices of those essentials which, by and large, are all that there will be to buy.

Let us look first, briefly, at the basic reasons for the scarcity of consumer goods, then at specific parts of the problem, and further at what is being done particularly by OPA to help put the brake on; lastly we shall look at the role the citizen himself can play in making these brakes work.

As American men and boys have left their jobs in communities for military service, so have American productive capacity and energy been turned more and more to the purposes of war. More than half of last year's non-agricultural production is already being used for war purposes.

We are short of manpower.

We are short of many materials.

We are short of many machines.

We are short of transportation.

How does this and how will this affect goods on which consumer income could be spent?

A scarcity of material will affect the supply of consumer goods, particularly those made from metal, rubber, wool and a few others. A list of articles, the production of which has been curtailed or prohibited, includes passenger automobiles, domestic mechanical refrigerators, domestic laundry equipment, washing and ironing machines, domestic vacuum cleaners, most domestic cooking appliances, most musical instruments. Production of radio receivers and phonograph material, household furniture material, venetian blinds, lawn mowers, most electrical appliances including electrical heating pads and domestic sewing machines, has been stopped completely. Such common articles as electric toasters, waffle irons, flat irons, food mixers, juice extractors, hair driers, hair clippers, and many other articles of common use will disappear from the market. Production of electric fans except for shipboard use has been stopped. Also fishing tackle except for a restricted supply of hooks and flies is no longer being produced. The manufacture of golf clubs has ceased. Production of outboard motors for private use has been stopped. The manufacture of toys and games containing more than 7% critical metals has ceased. Along with the prohibition of the production of vending, gaming and amusement machines has come a prohibition of the manufacture of weighing machines and automatic phonographs. The amount of metal that may be used in baby carriages is limited to iron, gold, steel, and

silver and the amount of iron and steel has been sharply curtailed. At present no steel may be used in inner spring mattresses, pads or metal beds. The production of bicycles has been cut down to approximately 6%. The production of church goods and the production of cutlery has been sharply restricted, although essential and domestic cutlery may be produced. But such items as carving sets, boys' pocket knives, pen knives and manicure sets are out for the duration. The production of most ranges or stoves for domestic purposes has ceased except for a few specified lightweight models. This production to be carried on by small manufacturers located in areas where there are no labor shortages. Manufacture of plumbing equipment, domestic coal stokers, hot water heaters and storage tanks has been prohibited and a sharp limitation has been placed on the iron and steel that may be used by non-mechanical refrigerator industry. Copper and steel orders drastically affect the fountain pen and mechanical pencil industries. No more high carbon steel may be used in hair pins or bobby pins. The amount of metal in incandescent and fluorescent light bulbs has been sharply curtailed, as has also the metal in costume jewelry. A long list of small items will disappear for the duration. These include tie racks, boot and shoe trees, most fire-place equipment, towel bars and racks, tooth brush holders, soap dishes, candle sticks and carpet beaters. There are restrictions on the use of critical materials in the manufacture of portable lamps and shades.

The lack of these articles in the market will put further pressure on the less limited but curtailed essentials.

Transportation and man-power shortages will cut full availability of many articles; for example: Not only must fuel oil be rationed on the East Coast because of the shipping situation, but as the September Survey of Current Business points out: "The inter-play of a number of factors forebodes a dangerously narrow margin between our bituminous coal supply and demand during the next 12 months. On the supply side there is primarily the labor problem. It has been estimated ... that nearly 50,000 employees of coal mines have been lost to the armed forces and to other industries this year. This is an element so serious that in itself it is considered to have placed a ceiling on future production at somewhere near the current level." Coal mining requires trained men and "it is not feasible to recruit new employees with any expectation of immediately favorable results."

Contrasted with limitation on production "we have an increasing demand for coal and that will not level off until the rest of our war production is reached Besides the normal increase in coal consumption resulting from greater industrial activity, there is an augmented demand for export coal . . . and a new demand from former fuel oil consumers who have converted to coal."

Scarcity due to machine limitations is typified by the current cotton textile situation, again to quote from the September Survey of Current Business: "In spite of the unprecedented level of cotton textile production, there is no question of a general shortage of raw cotton. . . . The general abundance of raw cotton, however, does not mean that civilians can plan on an abundance of cotton textiles throughout the war. Insufficient carding equipment together with the growing labor shortage constitute an important bottleneck of the industry. . . . Present stocks (of cotton

textiles) in the hands of wholesalers, retailers, and consumers are at comparatively high levels.

"The 1942 production will be a record high, but because of military requirements the quantity remaining for civilian use probably will be less than in 1941. Military demands can be expected to increase as the war effort is intensified. Because of insufficient carding equipment there is little likelihood that output can be materially increased in 1943. This spells reduction in the quantity of cotton goods which will be available to the consumer in 1943."

Thus the lack of commodities will be a brake on buying. This brake on buying must be turned into a brake on spending if a wild spiral of inflation is not to overtake us.

Mr. Gilbert's statements yesterday gave you the problem of control over prices and pointed out that in all likelihood fiscal policy will lag behind the situation, and that consumer income will be more than adequate to purchase possible available consumer goods and services.

APR 1 1944
Rationing was indicated as a further control. The initiation of rationing is not simple. The development of a particular rationing policy in its administration requires the consideration of many factors such as these: Can the commodity be evenly distributed to all? Should the commodity be allocated where most needed or most useful to the war effort? What principles should be applied in the case of household equipment of which there is a considerable shortage? How is registration to be carried out? Where? When? How is fraud to be prevented? What devices will help? How may decisions be made locally? How can some degree of uniformity in local board actions be secured throughout the nation? What about the people? Will they understand? These problems and many more are being carefully met. Wide public cooperation is needed to make them effective.

Mr. Gilbert spoke yesterday about the Will necessary to make price controls work. This Will needs to apply to all of the controls and needs to be shared not only by government departments but by the whole American people. For it is the sum total of their daily transactions that will in the long run make the law, or break it.

Not only a Will, but an understanding is necessary for true cooperation of government and people for final success. Fiscal policy is not likely to catch up with earnings and a surplus of funds over commodities at the prices fixed will occur during the coming months. Only the Will not to spend will hold the force of this surplus beyond taxes in check. There are, of course, some other items.

The curtailment of consumer credit is one of these: The Journal of Domestic Commerce, September 17, states that its "total consumer installment debt was reduced by more than \$1.5 billion during the first 6 months of 1942. The possible liquidation of an additional \$1.25 billion, plus the expected decline in short-term consumer debt other than installment debt, such as retail charge accounts and single-payment commercial-bank loans account for the balance of the expected total reduction of \$3.5 billion.

"Such liquidation is deflationary in character, since it constitutes a net drain from purchasing power, and will play a significant part in the Government's anti-inflationary program."

Consumers have begun to apply voluntary curtailment and the results of the exercise of a truly remarkable self control begin to show. This is registered by the report of early summer department store sales which in spite of the increased earnings show a decrease. The Federal Reserve Bulletin for October indicates that dollar sales in June and July, 1942, were 3 percent lower than in the corresponding months of 1941. After allowance for price increases, however, the volume of goods moving through retail stores in July, 1942, was estimated to be 17 percent below that for July, 1941. Comparison of sales of durable-goods stores in July with a year ago became still more unfavorable. Housefurnishing-store sales have been lower than a year ago, beginning in May, 1942. In July, for the first time, the building-materials and hardware group recorded a year-to-year decline. Of the components in the durable-goods stores index, only jewelry stores are still showing a favorable comparison with 1941. Among the non-durable-goods stores, all major groups except filling stations are still recording substantial gains over 1941. After allowing for price increases over the 12 months, however, only the eating and drinking, food, and drug groups show increases in physical volume of sales.

According to "Domestic Commerce," September 17:

"Last year consumers used some of their income to make substantial purchases of durable and semi-durable goods in anticipation of future needs, while this year an increasing proportion of the expanded consumer income has gone into savings."

A major educational job still needs to be done. Recent surveys indicate wide areas, where, as yet, there is only slight knowledge of price control and rationing. In one large mid-western city where a sample study was made in August, less than 15% of the wide sample test knew what a "ceiling price" was. A knowledge of the why of war scarcity and of how these scarcities will vary with the fortunes of war must be made available for the public. They must accept the responsibility of "I will not buy above a ceiling price." But if this responsibility is to be accepted, further development in labeling and standards is needed so that proper price quality judgments can be made by the consumer shopper. Further the need for household and community adjustment must be brought to the people of America in order that they may willingly undertake the strenuous task of curtailment which they are about to face. In this job you in the Department of Agriculture, and we in the Office of Price Administration must share in order that all citizens, urban and rural, may come to a like awareness of their share in this program of drastic self control.

C2048
1942

United States Department of Agriculture
Agricultural Research Administration

FARM FAMILY SPENDING AND SAVING IN WARTIME

Presented at Agricultural Outlook Conference, October 20, 1942

by Helen R. Jeter, Acting Chief

Family Economics Division, Bureau of Home Economics

Utilization of Income

You have before you the mimeographed statement prepared by the Bureau of Agricultural Economics and the Bureau of Home Economics entitled "How will farmers use their 1942 income?" That document gives you the principal figures concerning the 1942 income of farm families. I have been asked to discuss with you the probable ways in which family income will be used this year.

Estimates of aggregate income presented here were supplied by the Bureau of Agricultural Economics. Estimates concerning the use of that income by farm families are based on two studies made by the Bureau of Home Economics, the first for 1935-36 and the second for the calendar year 1941. From these studies it should be possible to predict with a reasonable degree of accuracy how families with more money will spend their increased funds, unless, of course, their usual choices must be modified in accordance with shortages of certain commodities or governmental control over production, supplies and marketing. The possibility of such brakes on spending is to be discussed this morning by Miss Ayres. The accuracy of the estimates of use of income can be checked to a certain extent also by a further study of spending and saving during the first quarter of 1942 insofar as figures for one quarter are typical of farm family spending.

Aggregate income and its general utilization

The statement which has been distributed shows that net cash income received by all people living on farms (from nonfarm sources as well as from farming) including wages to farm hands, will be about 11.2 billion dollars in 1942. This income will be apportioned in general under four main headings: (1) family living, (2) gifts and contributions, (3) taxes, and (4) surplus or deficit.

Family living includes all those goods and services that the family itself consumes or enjoys during the current year--food, clothing, housing, household operation, education, medical care, recreation, etc. Gifts and contributions go outside the family group. Taxes are required by a governmental unit and may not be varied according to the choice of the family. Surplus or deficit includes positive items of the family's provision for the future, such as life insurance or annuities, payments on additional real estate, additions to capital in the form of equipment, purchase of war bonds, etc., and negative items such as the amount that the family has to go into previous savings or into debt to provide for current family living.

Assuming that there really are "patterns of consumption" developed by studies of previous years and that these are applicable to the year 1942 or that families will respond to increased prosperity in usual ways, it is predicted that farm family living will absorb about 6.4 billion dollars of the total 11.2 billions available in 1942. Of the remaining 4.8 billion dollars it is fairly certain, according to Treasury estimates, that 110 million will go for income taxes. Gifts and contributions, on the basis of past experience, may reach 385 million. More than 3 billions may be left for debt retirement, purchase of additional real estate, additions to equipment, life insurance and annuities, purchase of war bonds and other savings.

There are two points about these figures of 6.4 billion dollars and 4.8 billion dollars that I should like to emphasize before going on to discuss expenditures. One point you will find indicated in Footnote 5 to Table 1, the other relates to distribution of income.

Advancing standard of living for 1942

Footnote 5, relating to the figure of 6.4 billion dollars for family living reads as follows: "1942 estimate assumes maintenance of 1941 level of living per family with allowances for increased expenditures in line with increased family income, shortages of some goods, for decrease in farm population and for changes in prices of consumption goods." This means in brief that on the average families receiving \$1,000 this year will spend in about the same way as families receiving \$1,000 last year. The estimate of 6.4 billion dollars, in other words, provides for an advance of all families along the standard of living scale in accordance with their own advance in the income scale. This makes the figure of 4.8 billion dollars even more significant as a balance since that figure was not arrived at by assuming that farm families could not improve their standard of living but by assuming normal improvement in standards of consumption except for the very obvious difficulties of purchasing some items and except for changes in prices of commodities. That the balance is 4.8 billion dollars in spite of improvement in family living standards should give us all considerable reassurance about the way in which it may be used.

Distribution of income among families

While the responsibility for wise utilization of an apparently large balance is undoubtedly a heavy one it must be remembered also that income taxes will reduce the 4.8 billion dollars to some extent. Moreover, it is clear that not all families will be faced with the responsibility for wide latitude of choice.

Nearly half of the farm families in the United States will receive less than \$1,000 in net cash income in 1942. Moreover, this lower half will receive only one-seventh of the 11.2 billion dollar aggregate net cash income. Expenditures for family living will absorb all of the income of most of these families and they will be more likely to have a deficit than a surplus to invest.

On the other hand, the upper quarter of all farm families will receive \$2,000 or more. These families will receive 63 percent of the net cash income of 11.2 billion dollars--but will account for less than half of the total expenditures for family living. This group will have at its disposal 83 percent of the 4.8 billions available for gifts and contributions, personal taxes, debt retirement, and other savings.

The average net cash income of families in the lowest half of the income distribution in 1941 was about \$340. These families will have about \$120 more per family to spend for all purposes in 1942. The upper quarter of all families will have increased income amounting to about \$1,100 per family; from a 1941 average of \$2,800 to about \$3,900.

These two groups are the "lower half" and the "upper quarter" among farm families. What differences are to be found in the composition of the two groups? In the lower half, 81 percent are white families, in the upper quarter 99 percent are white.

Owners constitute 66 percent of the lower half, 76 percent of the upper quarter. Tenants are 34 percent of the first group, 23 percent of the latter. Sharecroppers are 8 percent in the lower half, none in the upper quarter.

From one type of farming to another there are marked differences in the distribution of net money incomes among farm families. Thus among families in the lower income groups 42 percent are raising cotton, and 19 percent live on general or self-sufficing farms, while only 1 percent have land devoted to range livestock. As incomes rise this pattern changes greatly. In the upper quarter the cotton-growing families drop to 10 percent while those producing corn increase to 21 percent. In the upper quarter there is also a fairly uniform distribution as between corn growers, dairy farmers, and fruit and special crop raisers with range livestock and wheat not far behind. Tobacco producers show the least variation, constituting around 4 percent of each income group.

Average family income and its utilization

Translating the estimated 11.2 billion dollar farm family income into terms of family averages as shown in Table 2 gives a better idea of what particular families may be able to do with their incomes in 1942. The 3.2 million families in the lower half of all farm families ranged according to income distribution will have, according to these estimates, an average money income of \$510. These families will spend on the average \$500 for family living, \$25 for gifts and contributions, \$5 for taxes. They may spend \$40 for war bonds but their net financial balance for the year will show a deficit of about \$20.

In the income group from \$1,000 but less than \$2,000 are about 1.7 million families. These will average about \$1,500 in net cash income. They will spend on the average \$1,010 for family living, \$60 for gifts and contributions, \$10 for taxes, \$80 for war bonds and \$420 for other savings.

APP 1, 1944

The income group receiving \$2,000 but less than \$3,000 includes 940 thousand families with an average income of \$2,600. These families will spend on the average \$1,540 for family living, \$90 for gifts and contributions, \$20 for taxes, \$130 for war bonds and will have \$950 for other investment.

Receiving \$3,000 or more are 790 thousand families with an average income of \$5,900. These families need only \$1,950 on the average for family living. Their gifts and contributions average \$150, and taxes average \$90. They are expected to invest at least \$360 in war bonds and they will have over \$3,700 in other surplus funds.

Aggregate expenditures for family living

You also have before you in Tables 3 and 4 the distribution of the total 6.4 billion dollars among 11 principal categories of farm family living. The most important item from the point of view of expenditure is food, which constitutes nearly a third of the aggregate expenditure for farm family living and will cost about 2 billion dollars in 1942.

Next in importance but not much more than half as expensive as food is clothing, taking 17 percent and costing 1.1 billion dollars.

Third in importance are housing and household operation, about 14 percent of the total and costing \$910 million.

Fourth, even in a period of gas rationing, tire shortage, and discontinued production are automobile expense and other transportation expenses, amounting to 11 percent of the total and costing 700 million dollars.

Medical care stands fifth and is slightly more important, financially, than furniture and equipment. Recreation, personal care, tobacco and reading descend the scale from 3.3 percent to 1.0 percent of the total. Formal education is 1.2 percent of the total in 1942 and will cost about \$75 million.

Aggregate expenditures for family living increased 12 percent from 1935-36 to 1941. This year it is estimated that they have again increased over 1941 by 16 percent.

Family expenditures increased in 1941 over 1935-36 for 8 of the 11 main categories. The most marked increase in 1941 was for furniture and equipment (69 percent) which apparently indicated anticipatory buying to meet expected shortages. Decreases were shown for automobile expense and other transportation, formal education, and reading.

In 1942 the largest proportionate increases are estimated for reading (44 percent increase) and for formal education (36 percent increase), but these represent only 1 percent each of the total for 1942.

It is estimated that housing, household operation, personal care, clothing, medical care, and food each have increased from 24 to 26 percent in 1942 over 1941. Recreation probably has increased 20 percent.

Among these 11 categories it is believed that farm families will spend less in 1942 than in 1941 only for automobile expense and for furniture and equipment.

Validity of these estimates

Since these estimates for 1942 are based on patterns established by families in 1935-36 and in 1941, it is possible that families may actually have modified the patterns in 1942 by deliberate choice either from fears of shortages or from patriotic motives to prevent inflation and help finance the war effort or from individual interests in the direction of adding to capital or buying more land.

The study for 1941, for example, showed larger buying of furniture and equipment than was to be expected (70 percent more than in 1935-36). For 1942 there is an estimated decrease of 11 percent. Data collected for the first quarter of 1942 show an actual decrease which on an annual basis may amount to as much as 15 percent.

Automobile expense has been estimated as 4 percent less in 1942 than in 1941. But the actual data for the first quarter of 1942, if typical of the entire year, indicate an actual decrease of as much as 23 percent.

These are two items on which farm families may save even more than has been expected, the first from choice, the second from necessity.

The only other categories concerning which serious questions may be raised by the 1942 data are food, clothing, and medical care.

The Family Food Situation

Another mimeographed report prepared by the Bureau of Home Economics and available to you at the end of this meeting deals with The Family Food Situation in 1942. This report along with sections on other items in the family budget, will be incorporated in a report on Farm Family Living in 1942 which will be issued in the near future.

The report on the Family Food Situation summarizes the outlook with regard to food supplies and prices and analyzes the results of the Bureau's most recent studies of family food consumption conducted during the first quarter of 1942.

Recent changes in farm family food consumption

Even before changes in food habits were forced upon civilians by a war-changed supply situation, families had been responding to educational programs in nutrition and to changes in purchasing power.

Farm families spent one-third more for food in 1941 than they did in 1935-36. The average amount which went to pay the grocery bill in 1941 was \$250 compared with an average of \$187 in 1935-36. This increase in food expenditures within the six-year period raises many interesting questions. Were farm families spending a higher proportion of their total money income for food? Were they purchasing more food or did the increase in food prices account for the difference? Was less food produced for home use on their farms? Was the food more adequate nutritionally in 1941-42 than in 1935-36?

Food's share of money income in 1935-36 and 1941

In 1941 farm families spent an average of 22 percent of their money incomes for food as compared with 20 percent in 1935-36. Average money incomes were 46 percent higher in 1941 than in the earlier period, but expenditures for food were only 34 percent higher. With more money to spend in 1941, farm families did not want or need to spend a proportionate increase of their income for food. They perhaps preferred to pay off debts, increase their assets, or spend their money on other categories of goods or services.

Rise in food prices, 1935-36 to 1941

Price increases did not seriously affect the enlarged food expenditures of families in 1941. A farm family that spent \$187 for food (the average for all families) in 1936, would have found it necessary to spend \$206 (\$187 plus 10 percent) to buy that same quality and amount of food in 1941. Yet farm families actually did spend an average of \$250 for food in 1941. It seems very probable then that they were able to buy more food or food of better quality than in 1935-36.

1941 compared with the first quarter of 1942

Farm families' expenditures for food usually are higher in winter than in the other seasons of the year because their supply of home-produced food is lower. The average expense for food for the first quarter of 1942 was about 6 percent higher than one-fourth of the average for 1941. Average food expenditures in the first quarter of 1942 were \$66. One quarter's expenditure at the 1941 rate would have been \$62.50. More than one-fourth of the 1941 total, however, probably was spent in the winter quarter so that the percentage increase in food expenditures for 1942 may be even less than 6 percent. If you will look again at the estimates for 1942 that you have you will find that a 22 percent increase was allowed for food in 1942.

Prices paid by farmers for food were approximately 14 percent higher in March 1942 than the average for the year 1941. Farm families, therefore, purchased less food or food of lower market quality in the first quarter of 1942 than they did for about the same amount of money in the same period in 1941. While some further increases in prices have occurred since May 1942 it is probable that the estimate of 22 percent more food expenditure for 1942 is ample to cover the price increase.

Home-produced food, 1935-36 and 1941

Almost all farm families have some kind of food which they raise at home and use on their own tables. Of the approximately 17,000 farm families included in the consumption sample of the Consumer Purchases Study in 1935-36, only 37, or 0.2 percent, did not have any home-produced food. In the 1941 study, 1.2 percent reported that they had no home-produced food.

Home-produced food provided about 60 percent of the money value of the farm family's food supply; the proportion did not change materially from 1935-36 to 1941.

A slightly smaller number of farm families had eggs for their own use in 1941 (92 percent) than in 1935-36 (95 percent). The average quantity consumed in each period is approximately the same--one egg per day per person.

Home-production of milk increased about 11 percent in 1941. Three percent more families had home-produced milk and the average consumption was three cups per person per day.

Many more families had fruit from their own farms and the money value of the fruit grown and used by the 1941 families was almost three times that of the average value of fruit grown by farm families in 1935-36.

A smaller number of chickens and turkeys and less pork and other meat from the home farm was consumed by farm families in 1941 than in 1935-36. Prices received by farmers in 1941 for meat and poultry were generally higher than those received in 1935-36. This led families to sell more of their home-produced meat and poultry rather than consume it themselves.

Quantities of food consumed, 1936 and 1942

Preliminary tabulations from the Study of Family Spending and Saving indicate that farm families were consuming more of the protective foods in the spring of 1942 than they did in 1936. These foods are the ones which can be produced on most farms--milk, eggs, vegetables, and fruits. Dry beans, peas, and nuts were also consumed in larger amounts during the spring of this year. Consumption of potatoes stayed about the same, and there was a slight decrease in the use of meats, poultry, fish, and fats. The use of grain products was considerably less and as might be expected because of the inauguration of sugar rationing in May, there was less sugar, sirup, and preserves used in the spring of 1942 than in 1936.

Nutritional adequacy of diets, 1936 and 1942

More protective foods generally lead to a more nutritionally adequate diet. Calculations based on preliminary tabulations indicate that farm families were obtaining larger quantities of all of the essential nutrients in the spring of 1942 than they did in 1936.

It is important, however, that average quantities of the nutrients in the food consumed exceed by a fair margin these average allowances to cover cooking losses, unequal distribution among families and among children and adults.

Conclusion

It should not be concluded from these favorable statements that farm families should spend less for food than they did early in 1942 unless the increases in expenditure for 1942 were for more tea and coffee and more expensive forms of food--fancy packages, ready-baked goods, etc. Expenditures for food by farm families usually go for foods they do not raise. Therefore emphasis should be placed on spending food money as intelligently as possible--to get the greatest returns in nutritive value.

The fact that nutritive value averages are now higher than in 1936 and exceed in many respects the average requirements, should not be greeted too optimistically and does not yet warrant saving for the future to reduce present food expenditures.

Expenditures for Clothing

How important is clothing?

Clothing ranks second to food among the financial outlays for farm family living. In 1935-36 clothing purchases absorbed 13 percent and in 1941 nearly 12 percent of the total net cash income of all farm families in the United States. It is estimated that about 10 percent of the total net cash income available to farm families in 1942 will be spent on clothing.

In general, families with more money to spend, spend more money on clothes. But clothing expenditures do not increase as rapidly as income. Thus, from one income group to another the amount spent for clothes increases but the proportion of income devoted to clothing decreases.

Farm families generally spent slightly less on clothes than city families with comparable incomes. This may be because they have attached relatively more importance than city families to automobiles and savings. Moreover, as incomes rise, although farm families spend more for clothing, as city families do, the relative increase in such expenditure is less than for city families.

In a period of rising money incomes, therefore, such as the year 1941 farm families were spending more for clothing, an average of \$135 as compared with \$103 in 1935-36 but the proportionate increase (31 percent) was less than the proportionate increase in their money incomes (46 percent).

Amounts spent for clothing

Annual expenditures for clothing by farm families range from practically nothing to more than \$300. In 1935-36 more than one quarter of all farm families spent less than \$50 a year to clothe the entire family; in 1941 more than one-fifth spent less than \$50. At the other end of the scale, only 4 percent in 1935-36 and only 7.5 percent in 1941 spent as much as \$300 or more.

What factors determine the amounts spent for clothing?

It has been known for a long time that many factors such as income, family composition, degree of urbanization, geographical region and individual or social habits, tastes, cultures and fashion enter into the determination of how much a family spends for clothing. Some of these factors, such as family composition have been analyzed from the 1935-36 Study of Consumer Purchases in a special report on Family Expenditures for Clothing and in a more recent report on Family Spending and Saving as Related to the Age of the Wife and the Age and Number of Children.

According to the first report, farm families having incomes slightly above the median spent about \$100 for clothing in 1935-36. Thirty dollars was spent for the husband's clothing, \$32 for the wife's clothing, and \$38 for the clothing of the remaining family members.

Of the husband's \$30, half went for work clothing--outer garments, hats and caps, gloves, shoes, and boots; \$12 was spent for street clothes--suits, shirts, socks, hats, neckties, overcoats, and shoes; and the remaining \$3 for underwear, nightwear, and cleaning and repair of clothing and shoes. With such small amounts available to buy new clothing, replacements were of necessity infrequent; a \$20 suit could be purchased but once in five years, a work jacket every three years, and street shoes in alternate years.

The wife spent \$8--one-fourth of her total clothing outlay--for dresses, skirts, and blouses; \$6.50 for shoes and overshoes; \$5 for coats, jackets, and sweaters; \$3 for hose; \$4 for underwear and nightwear; less than \$2 for hats; and the remainder for accessories, clothing upkeep, and sewing materials. At this income level, the wife's winter coat would have to last five or six years and her lightweight coat and sweater about the same length of time.

The amount devoted to the clothing of other family members fluctuates around the average of \$38, varying from almost nothing in childless families to large amounts in families with several children.

The second report released early this year gives a picture of the way in which clothing expenditures vary among families of different age, sex, and composition. The farm families studied lived in the Middle Atlantic and North Central region.

Clothing expenditures of families without children are highest when the wife is under 30, slightly lower in each succeeding age group and lowest for families in which the wife is over 60.

Clothing outlays of families with children were higher than for the group without children, averaging from \$71 to \$100 for families with one child, \$84 to \$124 for families with two children, and \$124 for families with three or four children. For families with a given number of children, clothing expenditures tended to increase as the children grew older. At any given income level, amounts spent for parents' clothing usually decreased as the number and age of their children increased.

What articles will the 1942 clothing budget buy?

Farm families in 1942 have moved up along the income scale. The family described above that spent \$100 for clothing in 1935-36 probably had an income in 1942 that permitted spending \$150.

How the additional \$50 will be spent in 1942 depends upon a combination of economic circumstances and individual choices. If clothing prices advance at the same time that income advances, does the housewife spend more on a particular item of the same quality or does she spend the same amount for poorer quality and have something left to buy an additional garment that she would not otherwise have had?

Clothing prices for farm families had increased 33 percent from 1935-36 to 1942. In terms of 1935-36 clothing prices, therefore, the family described as spending about \$100 for clothing in 1935-36 and \$150 from a larger income in 1942 might have about \$133 to spend on clothing of the same quality and an additional \$17 to spend on additional garments. Or the family might elect to spend about \$100 on garments at the same price but of poorer quality and to spread the entire \$50 increase over additional garments that would not have been purchased in 1935-36. In either case which are the most probable purchases?

Analysis of the 1935-36 data show which garments have an elastic demand, i.e., which garments are likely to be added when income rises. The chances are that in the family with \$17 or with \$50 more to spend, the husband will buy no more overalls, underwear or socks, that the wife will buy no more woolen gloves, handkerchiefs or cotton stockings, since these are the purchases that remain fairly constant in quantity at all income levels. It is possible that the extra funds for clothing may go into one of the purchases that is relatively rare for the farm family. Among these unusual items greatly affected by added incomes are lounging robes and silk or rayon nightgowns for women, pajamas, nightshirts, and summer suits for men. Heavy coats with fur, rayon or silk gloves and stockings, and wool skirts also appear as incomes rise.

About 3.2 million families, one-half of all farm families in the United States, spend no more than this family on clothing. The range of choice is limited. Purchases already show price ranges of rayon and part-wool clothing. It is possible that shortages of materials and controlled production may not affect these families adversely. Even interruptions to usual marketing processes may be less disastrous to the farm family than to others provided the mail-order houses continue in business. Rationing of clothing, if it comes, will insure that the farm family gets its fair share of the national total of clothing supply.

Validity of the estimates for 1942

Estimates of clothing expenditures for 1942 which you have before you allow for a 24 percent increase in 1942 over 1941. Actual data for the first quarter of 1942, projected for the year, however, show a decrease of 20 percent. Whether the months from January through April are typical of clothing expense is open to question. Perhaps Christmas buying, supplementing fall purchases of winter clothing, made purchases before April 1 almost negligible. The chances are that a 24 percent increase for the year will barely meet increases in prices of clothing and will not allow the family to be better dressed than in 1941. Since the average farm family's annual expenditure for clothing is so small it seems probable that further savings should not be advocated here to meet the needs of war financing.

Health and Medical Care

The 1942 estimates before you, assign to medical care 8 percent of the farm family's total expenditure for family living--a 23 percent increase over 1941. This is an item that well may absorb some of the increased income of farm families. Yet the actual data for 1942 indicate a slight decrease rather than an increase in expenditure for medical care.

The problem of medical care may be viewed either in light of the new obstacles resulting from the drain of physicians and medical resources to the armed forces or in light of the place that rural health should play in national morale during the war period. If the second is important enough not only may farm family income be devoted to remedial medical care but public tax funds may be devoted to improvements in facilities leading to public health.

City families in large numbers, especially in the middle-income groups, have made provision for hospital service by prepayment plans such as the three-cents a day plan. These plans which are for hospitalization only have not reached farm families of similar economic level to any great extent although it seems perfectly feasible to organize them about any hospitals that are willing to accept patients from a fairly wide territory.

Two hospital and medical care programs of the Department of Agriculture, however, wage a more thoroughgoing attack on the problems of certain groups of rural families.

On the first of July of this year, over 100,000 Farm Security Administration families were participating in the FSA Medical Care Program, now organized in 986 counties in 39 States. This means that approximately 600,000 persons in low-income rural farm families had provision for medical care. The services offered in the program vary from county to county but practically all of the plans include physicians' services, obstetrical care, limited hospitalization, emergency surgery and ordinary drugs. The need for dental care has not been overlooked. Dental care is provided in each of the counties in which a medical care program is operating. Moreover, in 50 counties in which there is no medical care program there is a dental care program.

The other EXperimental Rural Health Program differs from the FSA Medical Care Program on several major points. Membership is not limited to FSA families but is open to all families in the county. Services included are more complete and fees are higher. Families pay a fixed percentage (usually 6 percent) of their annual net cash incomes toward membership fees. In the event that the percentage assessed against a family's net income does not yield an amount equal to the estimated over-all cost per family of the program, the difference is charged against Federal subsidy funds set up under the direction of the Farm Security Administration.

While these plans will not alone provide medical care if there is an actual shortage of physicians and nurses they probably will focus attention on the health needs of rural areas and will assist the War Manpower Commission to apportion such services as there are throughout the country.

Health centers and other facilities for the promotion of the public health are of course a usual charge upon local tax funds with assistance and supervision from State health departments and the U. S. Public Health Service. State agricultural representatives can assist State health departments in promotion more adequate local health services. On June 30, 1941 only 1,669 of our 3,000 counties had official health units under full-time medical supervision.

Rural family expenditures for medical care in 1941

Expenditures for medical care per farm family during 1941 averaged \$60. For both rural farm and nonfarm families the amount expended for medical care increased rapidly with rise in family net money income in 1941. For farm families the amount expended increased from \$32 for persons with less than \$500 net money income to \$124 for families with \$3,000 or over.

During the war period when other expenditures are necessarily curtailed because goods are not available, there is no need to curtail family expense for medical care. The estimate of 23 percent increase for 1942 provides for an average expense at least \$70 per family, about 8 percent of the total for family living. This amount appears to be ample to provide medical and hospital care under a group health program. Where that is not available, farm families should be encouraged to save for the future since the need for large expenditure for medical care is one that is highly variable. In 1941 only 518 of the 722 farm families interviewed reported any expense for a physician or surgeon, only 91 had hospital care; 356 had dental care. Only 25 reported prepayment for medical care and 82 had paid premiums for health and accident insurance. Thus the average family expense reported above as \$60 was spread over 722 farm families, many of whom had no large expense while others paid far in excess of that amount.

APPENDIX

Table 1.--Cash income of farm population, United States, 1935-39 average, annual 1941 and 1942

Item	1935-39 average	1941	1942 esti- mate	Percentage increase	
				1942 over 1941	1942 over 1935-39
	Billion dollars	Billion dollars	Billion dollars	Per- cent	Per- cent
Total cash available for living etc...	5.5	8.0	11.2	41	105
Cash income from farming.....	3.4	5.2	8.0	52	135
Net cash income to farm operators.	2.9	4.6	7.2	56	147
Gross cash returns from farm operations <u>1/</u>	8.5	11.8	15.6	32	84
Cash production expenses <u>2/</u>	5.6	7.2	8.4	17	51
Cash wages received by laborers on farms <u>3/</u>	.5	.6	.8	28	70
Cash income from nonfarm sources <u>4/</u> .	2.1	2.8	3.2	18	55
Cash expenditures for family living <u>5/</u>	4.9	5.5	6.4	16	31
Balance available for personal taxes, savings, debt, retirement, etc.....	.6	2.5	4.8	92	700

1/ Includes government payments (see table 2).

2/ See table 3 for individual items.

3/ Includes farm operators and farm laborers living on farms.

4/ The non-agricultural income of persons on farms includes: (1) Wages of farm operators from non-agricultural employment; (2) wages of farm people other than operators from non-agricultural employment; (3) income other than from labor of all farm people, including interest on bonds and non-farm mortgages, dividends, receipts from roomers and boarders, pensions, rents and royalties (non-farm), profits from non-farm businesses, etc.

Estimates for the first two of these items are based on census data for 1934 to 1939, and on an unpublished BAE study. In years for which no census data were available, BAE data on farm wage rates and employment, and BLS data on non-agricultural employment were used as a basis for the estimates. For the third item, estimates are based on another unpublished BAE study for the year 1934 and on the trend in non-agricultural net interest, rents and royalties, as estimated by the Department of Commerce in its National Income studies. All of these estimates should be considered only as rough approximations.

5/ Based upon BHE estimate of expenditures per family and OPA estimate of number of families. 1942 estimate assumes maintenance of 1941 level of living per family with allowances for increased expenditures in line with increased expenditures in line with increased family income, shortages of some goods, for decrease in farm population and for changes in prices of consumption goods.

Table 2.- Average money income and average expenditures for family living, gifts and taxes, war bonds and other savings, farm families, estimate for 1942

Money income class (dollars)	Number of families	Average money income	All family living	Gifts and Taxes	War bonds	Other investments and debt retirement
	Thousands	Dollars	Dollars	Dollars	Dollars	Dollars
All.....	6,590	1,700	970	80	100	550
0 to 1,000.....	3,160	510	500	30	40	1/
1,000 to 2,000...	1,700	1,500	1,010	70	80	340
2,000 to 3,000...	940	2,600	1,540	110	130	820
3,000 and over...	790	5,900	1,950	240	360	3,350

1/ Deficit of \$60

Table 3.-Cash expenditures of farm families for family living by consumption group, average 1935-39, annual 1941 and 1942

Consumption group	1935-36 average	1941	1942	Percentage increase (+) or decrease (-)	
				1935-39 to 1941	1941 to 1942
	Million dollars	Million dollars	Million dollars	Per-cent	Per-cent
All family living.....	4,900	5,500	6,400	+ 12.2	+ 16.4
Food.....	1,450	1,670	2,030	+ 15.2	+ 21.6
Clothing.....	850	900	1,120	+ 5.9	+ 24.4
Housing and household operation....	610	720	910	+ 18.0	+ 26.4
Automobile and other transportation	740	730	700	- 1.4	- 4.1
Medical care.....	375	400	490	+ 6.7	+ 22.5
Furniture and equipment.....	260	440	390	+ 69.2	- 11.4
Recreation.....	175	175	210	*	+ 20.0
Personal care.....	135	135	170	*	+ 25.9
Tobacco.....	110	115	125	+ 4.5	+ 8.7
Reading.....	55	45	65	- 18.2	+ 44.4
Formal education.....	80	55	75	- 31.2	+ 36.4
Miscellaneous expenses.....	60	115	115	+ 91.7	*

* No change

Table 4.-Percentage distribution of expenditures for family living for the periods 1935-39, 1941, and 1942

Item	1935-39	1941	1942
All family living.....	100.0	100.0	100.0
Food.....	29.6	30.3	31.7
Clothing.....	17.4	16.3	17.5
Housing and household operation.....	12.4	13.1	14.2
Automobile and other transportation...	15.1	13.3	10.9
Medical care.....	7.7	7.3	7.6
Furniture and equipment.....	5.3	8.0	6.1
Recreation.....	3.6	3.2	3.3
Personal care.....	2.8	2.5	2.7
Tobacco.....	2.2	2.1	2.0
Reading.....	1.1	.8	1.0
Formal education.....	1.6	1.0	1.2
Miscellaneous expenses.....	1.2	2.1	1.8

1.70
C20u8
1942

HOW FARM FAMILIES CAN HELP FINANCE THE WAR

Address by Professor W. I. Myers, Cornell University, at the
20th Annual Agricultural Outlook Conference, Washington, D. C.
October 20, 1942

Farm families, like all other citizens, are anxious to do their full share in the nation's war effort, including assistance in financing the war through the purchase of War Bonds. However, the farmer's problem is more difficult because, unlike the factory worker, he has to finance his own job as well as his home. The average investment per worker in United States farms is approximately the same as in industry. However, the investment in plant and equipment used by the industrial worker is provided by investors, while the investment in farm, livestock, and equipment is usually financed by the farm operator.

As compared with industry, American agriculture is characterized by relatively uniform production but by violent fluctuations in prices and incomes. When the price level goes up or down, farm prices usually rise or fall faster and farther than farm costs, retail prices, wages, and the cost of living. For this reason, the agricultural depression of the thirties was longer and more severe than the city depression. Similarly, the recovery in farm prices and incomes since 1939 has been very rapid.

In spite of their unfortunate effects on farm welfare, no way has yet been found to minimize the fluctuations in farm prices and incomes. In this situation it is up to farm families to obtain financial security by their own efforts. The gross cash income of United States farms in 1942 is estimated at 15.6 billion dollars, an all-time high. Regardless of government action on price ceilings, farm incomes will continue on a relatively favorable level, at least as long as the war lasts.

1. Maximum Production of Essential Foods and Fibers.

The first and most important job of farm families is the maximum production of essential foods and fibers for our armed forces, our allies and ourselves. Food production is of equal importance with the production of planes, guns, and ships. The requirements of our allies are increasing steadily. There is a critical need for all that we can possibly produce as long as the war lasts and at least a year or two thereafter. With increasing shortages of labor, machinery, and farm supplies, the maximum efforts of farmers and their families will be required to meet these expanding requirements.

In order to fulfill his obligation for maximum production of food, it is necessary for every farmer to develop and maintain an efficient farm business. As a result of the war, there has been a substantial increase in the requirements of working capital for efficient farm operation. This is partly due to higher prices and partly to the fact that adequate inventories of feed, fertilizer, spray materials and machine parts must be maintained in order to avoid delay at critical periods. It is good business to use the credit necessary for intensive operation and debts should be kept at the lowest point that will permit an efficient business. Conditions are favorable for enlarging a small farm business to efficient size if labor is available

and it can be financed safely. However, it is unwise to use _____ to enlarge farms beyond the size necessary for reasonable efficiency.

2. Get Debts in Shape.

The second job of farm families is to get their debts in shape by reducing excessive debts to a safe basis. There is no conflict between the reduction of debts and the War Bond program. Income paid on debts does not compete with the war effort and hence does not contribute to inflation. Then, too, such payments are available for use by creditors or credit agencies for the purchase of War Bonds or other government securities.

Every farm family, no matter how heavy their debts, will want to buy some War Bonds for the satisfaction of feeling that they are giving some direct financial aid to their country in this great emergency. However, in order to insure their continuing operations as food producers, heavily indebted families should use the major part of their increased incomes to reduce their debts to a conservative level so they can withstand bad years which may come later. After paying up delinquencies and extensions, if any, the next step is the reduction of excessive mortgage debts to a safe basis. Land Bank Commissioner loans and other emergency second mortgages should be paid off as rapidly as possible. Production loans should also be reduced to a conservative level.

It is equally important to get the debts of farm cooperatives in shape. Efficient cooperatives are of vital importance in enabling farmers to meet the demands of the victory food program with wartime shortages and restrictions. Cooperatives perform necessary services in marketing farm products and purchasing essential farm supplies that can be done most effectively by group action. The financial requirements of cooperatives have also increased substantially because of higher prices and the necessity of maintaining adequate inventories to meet transportation emergencies. In this period of higher farm incomes it is highly important to strengthen the financial position of essential farm cooperatives to withstand bad years. This can be done by reducing debts, by increasing their net worth through increased investment by members, and by building financial reserves through investment in War Bonds or other government securities.

3. Invest in War Bonds to Help the Nation and to Build Financial Reserves.

The third job of farm families is to invest in War Bonds to help the nation and to build financial reserves. Those who are out of debt can begin at once by investing all of their available income above necessary business and living expenses in War Bonds. The experience of the last war period indicates that such farmers will find greater security and satisfaction in the long run in building financial reserves to protect their farms and their standard of living than in enlarging their holdings beyond the size necessary for efficient operation. The possible profit from the speculative purchase of farm land in periods of favorable prices and incomes is seldom worth the worry and the risk of losing all if a severe depression should follow. In addition, speculation in farm land is harmful to agriculture and to the nation.

For farm families with moderate debts or who have reduced their financial obligations to a safe basis, patriotism and self-interest are served by investing in War Bonds to the limit of their available net incomes, postponing unnecessary expenses until after the war has been won.

The savings invested in War Bonds provide our government with an important part of the funds required to meet the costs of this world-wide total war. Enormous expenditures are called for to provide men, planes, ships, guns, munitions and food for our armed forces and our allies. Taxes cannot be increased enough to meet these costs in full. It is imperative that farmers as well as other citizens should eliminate unnecessary expenditures and transfer these savings to their government through investment in War Bonds.

During this war period the production of automobiles, farm tractors, combines and other machinery will be greatly reduced because of the need of steel and other critical materials for war purposes. A part of the money received by farmers for their products is pay for the wearing out of all types of farm equipment. It is not income but is a return of working capital which is being worn out. The money that would ordinarily be used to replace automobiles and farm equipment should be invested in War Bonds as a depreciation reserve which will be available for replacement after the war.

Many farm families will now have money available for the purchase of electric refrigerators or water systems, or other home equipment, or for the improvement of farm homes, but these facilities for comfortable living are not available. By investing the cost of the desired improvements in War Bonds it will be possible to insure their purchase when factories have changed back from the production of war goods to those of peace.

After debts have been reduced to a safe basis, it is safer and better for most farmers to build an adequate financial reserve through investment in War Bonds than to apply all available income on debts. If all income is applied on debts, it will probably be necessary to borrow again in order to replace tractors or automobiles or other farm machinery when they become available. At some times in the past it has been difficult to borrow, especially when money was needed most, and these conditions may recur. A financial reserve in War Bonds is available at any time for any purpose -- for the purchase of machinery, for the improvement of homes, for education of children, for unexpected hospital bills, or for the payment of taxes and debts. The slight loss in interest between the rate paid on debts and that received on War Bonds is a small price to pay for the insurance which such a financial reserve will provide.

Bonds Are the Best Form of Financial Reserve Ever Offered to United States Farmers.

War Bonds are the promises to pay of the strongest government in the world. They are not transferable but the investment will be repaid to the owner if needed at any time after sixty days from issue. If left for one year or more, interest will be received in addition and if left to maturity, in ten years, the investor gets back \$4.00 for every \$3.00 put in.

Patriotism and self-interest combine to make an investment in War Bonds the best possible form of financial reserve for farm people. Unnecessary expenditure in wartime is unpatriotic and wasteful. By postponing the spending of the increased farm incomes of the war period until after the war has been won, farm families will help their country and themselves. At that time the gradual expenditure of these financial reserves will help to stabilize business conditions and employment in the period of readjustment from war to peace. It will also provide productive employment for the returning men of our armed forces after victory has been won. By using the peak incomes of prosperous years to fill the valleys of depression years, farmers can protect their farms and their standard of living in unfavorable periods that may follow.

The financial welfare of farm people in the next two decades depends to a great extent on the wise utilization of the higher farm incomes of the present war period. For the first time since the last World War, the incomes of farmers generally will provide a margin for reserves above necessary expenses. The overexpansion and speculation in agriculture between 1914 and 1920 resulted in suffering and loss in later years to thousands of farmers who expanded their business on credit at the inflated values of that period. The only effective way of avoiding the disastrous results of inflation and deflation is through using the increased incomes of this period to get debts in shape and to build financial reserves in War Bonds.



1.90
c20u8
1942

WHAT IS WRONG WITH "PARITY"?
A Northeastern View

Address by Professor W. I. Myers, Cornell University,
at the 20th Annual Agricultural Outlook Conference,
Washington, D. C., October 20, 1942

"Parity" came into use as a general guide for programs designed to restore the purchasing power of agricultural commodities from depression levels. In recent months it has been proposed as the basis for the establishment of rigid price controls of farm products. As a result, the "parity" problem is now interwoven with the whole question of the maintenance of adequate food supplies in wartime. In the following discussion, consideration has been given to the public complacency about the food situation and to the prevalent public misunderstanding of "parity" as well as to questions that fall specifically within the scope of the subject assigned.

Because of the great depression, five consecutive crop years unparalleled in our history, and the large stocks of wheat accumulated under government loan, the public has come to believe that nothing can happen to our food supply. This feeling has been emphasized by another record-breaking crop in 1942. According to the October estimates the aggregate crop yields per acre this year will be the highest in history and about 36 per cent above the 1923-32 average. These recent phenomenal yields are thought to be entirely the result of better methods of production and of the conservation programs. As a matter of fact, they are due partly to improved practices and partly to very favorable weather. Unfortunately, no way has yet been found to insure good weather.

There is real danger in this prevailing public complacency about the food situation; the tendency to take an abundant food supply for granted. The present situation calls for the maximum production of all essential foods. There is a critical need for all we can possibly produce as long as the war lasts, and for at least a year or two afterwards. The needs of our allies are increasing steadily, and even with record-breaking production in 1942 we will not have enough of some important foods to meet civilian demands.

In spite of the enormous increase in mechanical equipment for modern war, an army still marches on its stomach. Food is of equal importance with planes, ships, tanks and guns. The maintenance of full production of food is becoming increasingly difficult. We are certain to have increasingly serious shortages of machinery, fertilizers, spray materials, and, above all, of skilled farm labor. To meet our food demands will require the maximum efforts of farm people, the maintenance of an adequate supply of skilled farm labor, and in addition favorable weather.

When prices fell in 1929-33, the prices of farm products declined more violently than farm costs. This maladjustment continued through the thirties and as a result, the farm depression was longer and more severe than the city depression. During the last half of 1941, for the first time since 1930, New York farm products as a group reached approximate "parity". The present level of farm prices is also in a reasonably favorable relation to farm debts.

One important difference should be noted between the present situation and that in World War I. World War I began during a period of moderate

prosperity when prices of farm products were in reasonably favorable adjustment with farm costs, farm debts, and retail prices. The present war began at the end of a long and severe depression with prices of farm products at very low levels and at a serious disadvantage as compared with the cost of articles farmers buy, farm debts, retail prices, industrial wages, and the cost of living.

Now that reasonable equality in prices has been reached, any further great rise would bring only very temporary advantages, and would probably bring long-time serious disadvantages to farm people. While farm prices rise and fall more rapidly than the costs of articles farmers buy, there is a more prompt adjustment between them during periods of rising prices, such as 1914-20. While debts are easier to pay during periods of rising prices, there is a great temptation to go into debt in the hope of making more money.

In recent months, during consideration of the price control problem, farmers have been the victims of much undeserved criticism. These criticisms are based in part on the marked increase in farm prices since August 1939 which is assumed to be the cause of inflation. Urban dwellers do not understand that up to date this rise in farm prices has been primarily a recovery from depression levels that caused financial disaster and severe suffering among farm people. However, the most important cause of public criticism was the attempt of farm organizations to place price ceilings above "parity". Unfortunately, the public doesn't understand that "parity" is only a legal formula; that it is not, as its name implies, a guarantee of economic equality with other groups. "Parity" is a measure of the purchasing power of farm products in terms of articles farmers buy for business and living, including interest and taxes. The price of a product is at "parity" when a given quantity of it will buy as much of the articles farmers buy as during the base period, 1909-14.

Farm labor is the most serious of all farm problems. Furthermore, it is certain to get worse as long as the war lasts. The difficulty is due in part to selective service, in part to volunteering, but above everything else to competition with war industries and war projects. Northeastern farmers are near markets but they have the disadvantage of extremely severe competition with all types of war plants offering high wages.

For example, the weekly earnings of New York factory workers are the highest in history, while the cost of living is considerably below the level of the twenties, a period of high city prosperity. For the year 1941 the buying power of the weekly earnings of New York factory workers was 79 per cent above 1910-14. In August 1942 it was 97 per cent above 1910-14 and 50 per cent above 1926.

At the same time the buying power of New York farm products is just getting back to the 1910-14 level. The buying power of New York farm incomes has probably increased in approximate proportion to the increased efficiency of farm production, but no comparable figures are available for all farms of the state. According to unpublished estimates of the Bureau of Agricultural Economics, the buying power of the net incomes of typical New York dairy farms was 52 per cent above 1910-14 in 1941 and will probably be about 81 per cent above the same base in 1942. These farms represent the better dairy areas of the State. The substantial increase in 1942 over 1941 is due

partly to higher prices and partly to record-breaking crops that are not likely to be repeated soon.

Over a period of several decades the buying power of city workers and of farmers increases slowly as the output per worker increases. However, the short-term fluctuations of the two groups differ widely. In periods of falling and low prices, the buying power of employed factory workers increases rapidly, while farmers have no increase or an actual decrease. In periods of rising prices, the buying power of employed workers increases slowly or may decline, while that of farmers increases. A disproportionate share of the national production went to urban people during the decade of the thirties.

During the depression of 1929-33, New York farm wages declined more than the earnings of employed New York factory workers because farm prices were low and there were no alternative jobs available. Since 1939, farm wages have increased 75 per cent because of abundant opportunities for industrial employment at high wages. Although the cost of farm labor has increased, even this doesn't measure the full disadvantage to farmers due to the deterioration of the labor force through the loss of young, skilled men and their replacement by less competent workers. In spite of the fact that farm wages have risen more rapidly than farm prices and are at a higher level, hired men and family workers have continued to leave farms.

The efficient Northeastern food producing farm is usually a two to three-man business. Nearly two-thirds of the milk for our cities is produced on farms employing two or more men, including the operator. On July 1, 1942 the supply of farm labor was 49 per cent of normal, a decline from 90 per cent in two years.

The provision of temporary workers to harvest fruit and vegetables will become increasingly difficult, but this is not an insoluble problem. The use of high school boys and girls, of transient labor camps and of women and men from nearby towns and villages will help out greatly if adequate plans are made in advance for such emergencies. In general such work requires relatively little skill and involves short peak periods.

However, such labor cannot harvest crops that are not produced. The critical farm labor problem is the supply of skilled operators, hired men and farmers' sons employed for a large part or all of the year. If an experienced farmer or farmer's son or hired man leaves a farm and cannot be replaced, production will decline. No temporary palliative will help.

The most serious weakness of "parity" as an indicator of the relation of farm prices to farm costs is that farm labor is not included in the index of costs of articles farmers buy. For August 1942 these indexes in terms of the 1910-14 base were as follows:

New York farm prices of farm products	149
Articles farmers buy (United States)	152
New York farm wages	215

Dr. L. C. Cunningham of our Department of Agricultural Economics has prepared an index of costs in New York dairy farming which includes the wages of all hired and unpaid labor other than the operator, in addition to all other business costs of dairy farm operation. For the same month, this index of costs in New York dairy farming was 161 or about 6 per cent higher than the United States index of costs of articles farmers buy.

According to the present legal formula, New York farm prices in August were slightly below "parity". However, they were only 93 per cent of costs in New York dairy farming and only 69 per cent of New York farm wages. Prices of farm products limit the wages of family labor and the ability to retain other labor, just as wage rates determine the pay of factory workers. While present New York farm prices, farm wages, and farm incomes represent a great improvement from depression levels, they are still unfavorable in comparison with the earnings of workers in competing industries.

Hired men and sons of farmers did not leave farms during the depression even though farm wages and prices were very low. At that time industrial unemployment was so serious that large numbers of workers were on relief. At the present time competition for men is extremely keen, with many alternative opportunities for employment at high wages in war factories and on war projects. The relative financial opportunity between farming and other employment is the decisive factor for most hired workers, for much family labor, and for some marginal farmers. The most critical areas are those immediately adjacent to war industries. However, these plants are gradually drawing men from greater distances as high wages and a keen demand for men continue.

In my judgment, farmers are willing to give up the normal expectation of higher incomes during a period of rising prices, in the interests of national welfare. However, the crucial problem remains, What prices are necessary to enable farmers to retain enough labor to get the requisite food produced? In establishing ceiling prices for farm products, primary consideration should be given to present alternative opportunities rather than to historical relationships.

During the depression, "parity" was the goal to which farmers hoped prices might rise. Now "parity" is the limit beyond which consumers hope that prices will not be allowed to rise. Formerly, "parity" was considered as a floor for farm prices; now under price control we are attempting to use it as a ceiling.

Income is the best measure of economic welfare of farmers as well as of other groups. While farm prices are a reasonably good measure of farm income, they have obvious limitations. As the base period becomes more remote, these limitations become progressively more serious because of changes in the organization and efficiency of farms.

From the standpoint of their use in the establishment of price ceilings of farm products there are at least four weaknesses of "parity" prices as computed by the present legal formula.

(1) Farm labor is not included in the index of costs of articles farmers buy.

(2) The relative prices of some farm products have changed greatly since the 1909-14 base period because of changes in their demand and supply situation. For example, hay and oats have declined, while beef and some other products have risen.

(3) The present index of costs of articles farmers buy is based on national averages and does not reflect the great differences in expenditures for feed, fertilizer and labor between different regions and states. Hence, this index is not accurate for any single state or region.

(4) "Parity" prices give no recognition of the price problems of unusually large or small crops.

If ceiling prices of critical food products are to be based on "parity" prices, it is imperative that the cost of farm labor be considered as well as other costs. To fail to do so would invite disaster. Even this may not be enough. It is extremely unfortunate that this change was not made when the original price control act was passed by Congress. While the limit of 110 per cent of "parity" gave approximately the same answer, it resulted in violent and acrimonious criticism from the city press because of the erroneous belief that farmers were using a grave national emergency to promote their selfish advantage.

It would also be desirable to use the relative prices for a recent period in determining the ceiling prices for individual products. The provisions for alternative base periods and "comparable prices" were, in part, awkward attempts to make the necessary allowances for changes in relative prices of products since 1909-14.

However, the most serious danger in the present situation is the public enthusiasm for the establishment of rigid price ceilings for all farm products to prevent increases in the cost of food. While these desires of consumers are natural, it should be understood that under present conditions it is possible to have relatively cheap food, or full production of food, but not both. In view of the increasing difficulties of farm production and the growing demands for food, the critical problem is not ceiling prices but the necessary prices to maintain full production of essential foods.

While "parity" denotes equality of buying power of farm products as compared with the period 1909-14, it has little significance in relation to the present industrial competition for farm labor, especially in the Northeast. To hired men and older sons now working on farms the decision in regard to remaining in farm work depends largely on the real incomes in their present employment (including farm privileges and security) as compared with the real wages of alternative industrial jobs available to them. It is impossible to keep the necessary skilled hired and family labor on farms at present wages unless we resort to drafting labor for farm work. Progress to date in the handling of the manpower problem suggests that too great dependence should not be placed on such action to meet the present farm labor emergency.

There has been much public discussion of the inflationary effects of the increase in farm prices. This is true only in the sense that any increase in the cost of living is the basis for requests for further increases in wages and therefore in costs. However, no cases have been noted of workers leaving war plants to work on or to operate farms in order to share in present agricultural prosperity.

One of the important causes of the present war inflation is the payment of wages far above prevailing levels in war plants and on war projects. The purpose of these wages is quickly to attract the desired number of workers from other employment. It is the price of haste, and to a large extent is probably necessary. Unfortunately from the standpoint of price control, these opportunities have drawn men from essential industries as well as nonessential and have reduced the supply of skilled farm labor to the danger point. Farm products are almost the only vital war necessity not covered by government

contracts at cost plus a reasonable profit. Farmers must compete for labor with war plants operating under these contracts. While it is true that this is not entirely a problem of farm prices and relative wages, it is equally clear that enough skilled workers will not remain on farms voluntarily without recognition of this competitive situation.

Although high in relation to farm prices, present farm wages are still relatively low in comparison with industrial wages. If the necessary supply of skilled farm labor is to be retained by voluntary means, further increases in farm wages must be expected to bring them into a reasonably competitive relation with industrial wages, considering differences in living costs. There is no valid reason why farm labor, although unorganized, should not share in the benefits resulting from keen competition for workers. The ability of farmers to pay competitive wages will depend on the level of farm prices. Farm operators should not be expected to increase wages in order to retain essential workers if by so doing they will seriously reduce their own net incomes.

With farm operators the question of remaining on the farm depends on how the buying power of their net farm income compares with that of wages in industrial jobs available to them. If the operator is an owner, his ability to sell or rent his farm if it is necessary to move, as well as the relative security of employment and his personal desires, will also be considered. Most farm owner-operators will probably remain on their farms regardless of the level at which ceilings for farm prices are placed. However, if farm prices are too low, some of them will rent their farms or allow them to lie idle in order to obtain the high wages available in war industries, especially if they can get these wages while continuing to reside on their farms.

The seriousness of war competition for farm labor varies considerably between different regions. In general, it is most severe in the Northeast and on the Pacific coast in areas that are important in the production of dairy and poultry products, vegetables and fruits. These are types of farming in which less use can be made of large labor-saving machinery. With prospective shifts in consumption to less meat and more grain, the maintenance of production of dairy and poultry products, vegetables, fruits and other protective foods becomes of even greater importance in the nutrition of war workers. Growing congestion of transportation facilities will tend to restrict shipments of bulky foods from distant areas and increase the dependence of industrial cities on nearby farms. But these are the areas where war competition for men is most serious and the farm labor problem most acute. These differences in the competitive situation between regions are not measured by "parity" prices based on national averages of farm costs. For these and other reasons it is to be hoped that there will be no attempt to establish ceiling prices on fresh vegetables and fruits. If a "parity" formula is to be used by Federal Market Authorities for determining the farm price of milk in any milkshed, local costs on dairy farms in the area concerned should be used rather than the national index of costs of articles farmers buy.

If ceilings on farm prices are placed too low, the farm labor force is certain to decline. In view of the unusually favorable weather of recent years, even the maximum efforts of the present labor force may not be adequate to maintain production at present levels.

In order to produce the required quantities of livestock and livestock products, two vital factors must be favorable: maximum production of feed crops and a satisfactory relationship between livestock prices and feed prices. In case of a serious drought, rigid price ceilings would become a serious threat to the maintenance of food production. Hence, in a price-fixing program in wartime, elasticity of prices to meet changing conditions is a primary requisite. The prices of grains should be adequate to insure maximum production of feed. Since meat and livestock products are in greatest demand, their prices should be maintained at levels that will result in full utilization of available feeds. If production of feed crops should decline considerably below recent record levels, quick action in adjusting prices would be necessary to avert a disastrous squeeze of livestock producers.

With the modifications and limitations suggested, "parity" prices are probably the best general guides available for use in the establishment of price ceilings for farm products. However, the maintenance of adequate food production is menaced by the competition of war industry for skilled farm labor, by increasing shortages of machinery and supplies and by the demands of the armed forces. In order to meet this situation by voluntary means, primary consideration must be given to the alternative opportunities for industrial employment of skilled farm labor. Emphasis should be placed not on ceiling prices but on necessary prices to maintain full production of essential foods.

The use of subsidies as a substitute for necessary prices should be held to the minimum. With wartime earnings most consumers will be able to pay the necessary prices for food without hardship. The general use of such subsidies is an unnecessary incentive to inflation that should be avoided.

Whatever the exact level at which we attempt to establish price ceilings for farm products, farm incomes will probably continue to be relatively favorable as compared with recent years, at least as long as the war lasts. For long-time farm welfare, price floors extending well beyond the end of the war are more important than price ceilings.

The maintenance of necessary prices to get the requisite food produced is not primarily a farm problem. The nation's welfare is at stake. From the standpoint of national welfare, ceilings for farm prices should not be fixed at levels that will result in less than full production of all essential foods. The real job is to win the war. In order to win, we must produce the necessary food as well as the planes, ships and munitions for our armed forces, our allies, and ourselves. The vital farm problem is the establishment of necessary prices to get the essential food produced. Price control, equity and everything else are secondary. Farmers will do their utmost, whatever action is taken on price ceilings, but their best may not be enough if too low prices prevent them from retaining the requisite labor to do the job.

1170
C2048
1942

WHAT OUGHT TO BE DONE TO PARITY

Address by Professor John D. Black, Harvard University, at the
20th Annual Agricultural Outlook Conference, Washington, D. C.
October 20, 1942

I shall undertake this afternoon to consider the several alternatives which public policy might take relative to parity, beginning with the one suggested as a possibility by Dr. Allin in his introductory remarks on this general program, which bears the title "Parity in the Years Ahead". These alternatives need, of course, to be considered for the years immediately ahead, for the period of post-war prosperity, and particularly for the years on the other side of that, in which, if history repeats itself, we shall have a depression in which farm prices will sink to relatively low levels if nothing is done to prevent it. The first part of my discussion will relate to parity under the present form of the price and wage control act and the executive orders of October 2 and 3 respectively.

Mr. Wells has expressed a general attitude toward parity which is to the effect that it is a basic concept of the new national and world order and that already the agricultural electorate of this country has become so attached to it that it will not be discarded. I have no difficulty in agreeing with the first of these statements. Distribution of social income in the real sense of the word will not, as I expect to state in more detail later, be left henceforth to the free play of economic forces or to the amount of such free play as still exists in our social economy. We are instead going to set up machinery which will direct that distribution more equally between social classes, and some criterion of the general nature of parity will be employed to that end.

Looking to the immediate future, however, to the next five years, let us say, I am not so sure that parity will be retained in anything like its present form. Mr. Wells has worked so hard on the parity problem in the last ten years that possibly he has acquired an unconscious, sentimental attachment to it. Either of two things may happen that will push parity into the background. One is that Mr. Byrnes' economic stabilization effort may not prove sufficiently effective to prevent a further pyramiding of prices and the cost of living and that within the next year the public demand for stabilization at the then existing level will be so strong that either Congress will pass a rigid over-all price and wage freezing measure, or Mr. Byrnes himself will gradually shift toward such a freezing, ignoring as needed to this end any restrictions in the recent legislation doing this under the terms of the general war powers which the President threatened to use on Labor Day if Congress did not vote him such powers implicitly. The other development which may push parity into the background is that more and more farm prices will be established on a necessary price basis at levels above parity-based ceilings, or below them if the needs of the war effort may require, so that parity will in effect be ignored. For a considerable number of these products this level will be definitely above a parity-based ceiling. The discussion in this conference as well as much of that coming in from the states indicates a shifting of concern from establishing a level of prices tied to parity, to a level of prices that will make possible the supplies of food and fibre needed in the national emergency. In the period of the post-war prosperity following the war, prices of farm products are likely to remain at levels so high that the agricultural public will lose interest in their parity relationships. Not until or unless a post-war slump begins will a strong interest in parity be revived.

Parity Under the New Act

It will be well at this point to call closely to mind the form in which parity is still retained in the new price act: 1) No ceilings on farm prices are to be established below parity or comparable prices as defined in existing AAA legislation. Prices of farm products can be adjusted downward to correct for "gross inequities" from the 1942 highs, but in no case to a level below parity. 2) Differences between parity prices or incomes and permissible prices at 85% or 90% of parity are being made up for by parity and conservation payments. 3) Parity prices are still tied to costs by way of the parity formula. This applies both to the ceilings and the 85% and 90% bottoms. If industrial wages rise and with them the index numbers of prices paid by farmers, as has happened consistently in the last year or so, then parity prices themselves will rise.

How important this third relationship is depends, of course, upon changes in industrial wages and the cost of living in the months ahead. Dr. Richard Gilbert told you yesterday afternoon that the rise in the cost of living since the General Maximum Price Regulation went into effect was almost exactly equal to the contribution of the food price rise, and that no evidence of any effect of the strong industrial wage increase in that same period has yet appeared in the cost of living. He spoke of this, however, as unusual, and predicted that the rise in industrial wages would very shortly have begun to contribute to a rise in the cost of living. What right have we to assume that it will not presently do so? What is there in the new stabilization effort that will keep the effects of this rise from appearing? There will be no lowering of wages and other costs.

You will recall also that Dr. Gilbert conceded upon questioning that an increase of 5% could occur in the average level of industrial wages if the Little Steel formula were applied clear across the boards. He doubted whether such an increase would be permitted, or at least he expressed a strong hope to that effect. You will also recall a definite statement of his toward the end of the discussion that we do not now have the organization necessary to prevent a further rise in prices and will not have it until a large volume of free spending power is absorbed and several other important developments occur, including: rationing of manpower that will take competition out of the wage market the same as rationing is expected to take competition out of the food market.

I had occasion recently to discuss this problem of the position of agriculture under the new price and wage control act before the WAF Farm Forum. On that occasion I called attention to the stairwise character of the rise in farm prices and the cost of living in the past. When price control was first initiated by Mr. Leon Henderson and his group, it had the effect of leveling out prices to an appreciable extent. Presently, however, the price line started upward briskly and the General Maximum Price Regulation was instituted. This leveled off prices for a few months, but in August a steep rise set in again. The question now before us is whether another step in this price stairway will begin to form. I can conclude my analysis with a statement somewhat as follows: the cost of living in cities may rise both because wage rates rise and because food costs climb. This will create a demand for a further concession in wage

rates beyond the fifteen percent allowed in the Little Steel Formula. If this is granted, then we shall simply add another step to our stairway; and at some later period still another.

In spite of these dangers, however, Mr. Byrnes can keep prices and wages from climbing stairwise if he really wants to do it hard enough. Perhaps it would be better to say that he can keep price and wage rises sufficiently under reign to take care of the situation until some compulsory savings law can be passed very early in the new year. What he will need to do to achieve this is about as follows:

1. Deny all increases in wage rates even up to the fifteen percent, except in the case of employments needing to be maintained at their present volume or more, because of, or in spite of, the war. This is strictly legal under the Act. (The word and in Section 4 covers this. If it had been or, it would not have done so.)
2. Prevent competitive bidding up of wage rates between different industries and trades and between these and agriculture. Most of such bidding up adds little to the total supply of labor. It principally adds to labor costs. The way to get the more labor needed is to recruit it and direct it into the right channels. Part of this labor can be recruited in places in trade and industry where contraction is under way or labor is wastefully used. Some of it can be recruited in farming areas. A recent survey in a group of counties in the cut-over area around the Great Lakes discovered ten thousand men inadequately employed. Part of these should go to war industries and part of them to farms. Many counties in the South have from 500 to 1000 inadequately employed workers.
- Dr. Gilbert recognized fully in his statement the importance of this phase of the problem. He said that there must be a rationing of labor between agriculture and industries and between industries so that wages will no longer be the force that distributes labor between different employments.
3. Declare as grossly inequitable, again under the terms of the Act, some of farm product prices that are now far above parity and also higher than needed to call forth the amounts required.
4. Prevent the competitive bidding up of prices of different farm products, especially of non-essential against the essential, or of surplus against deficit products.
5. By these means, hold the cost of living sufficiently in line so that industrial labor and farmers can reasonably be asked to absorb any small increase in it that takes place. It would be well to announce such an intention at this time.

6. Some of the increases in costs, however, are not the result of competitive bidding up of wages and prices. Some real costs rise with expansion of output -- poorer mines need to be worked, poorer or less adapted land to be farmed, or less competent labor to be used. Cows may need to be fed beyond the point of the least-cost combination. In such situations, subsidies can be advantageously employed; but they should be paid, whenever it is in any way feasible, only on that part of the production which has the higher costs, and only at a rate that offsets these higher costs.

and only at a rate that offsets these higher costs. Thus to pay a subsidy of 40 cents a hundredweight on all milk produced would cost a half billion dollars; but a whole dollar a hundredweight could be paid on production in excess of the 1941-42 average at a cost of not more than 100 millions.

Are the people of the country ready for such measure as these six? Or do they want to build more steps on the stairway of prices and living costs? There is only one answer. They have been ready for such measures for nine months. In recent months three-quarters even of the farmers have wanted effective price and wage control with little concern over parity legislation.

Farmers do, however, have some needs that must be met if they are to produce what the war effort requires. Three ways of meeting these have been indicated in what I have said: First, recruit labor for them; second, pay subsidies on additional outputs, and in some cases even for maintaining present outputs; and third, raise a few prices where real costs have risen, and no other way of meeting them is available.

Should Mr. Byrnes in the near future let another upward step in the cost of living stairway begin to take form, he will at once begin to lose the fine public support he now has. Our people will tolerate little further temporizing in this matter. If another step upward really occurs, they will insist next time on nothing less than a final over-all price and wage freeze.

Such a rigid over-all freezing may easily interfere with the most effective prosecution of the war effort. I agree with Dr. Myers that we do need a certain amount of flexibility in the price and wage situation. The only difference is that he favors an amount of it enough greater than I have in mind so that I think that if it were permitted it would be impossible to keep the price and cost of living lines from rising unfortunately.

The parity part of the new price act, that is, the tying of ceilings and bottoms for farm products to the parity ratio, thus has definite possibilities of contributing to further rises in the cost of living and further inflation. Only by a vigorous checking of wage increases and farm price increases so that the cost of living is held closely to present levels, can the parity provision of the act be kept from producing another step upward.

Farm Labor Costs

How does farm labor fit into this parity system? Not a word is said about this in the President's executive order. Nevertheless Congress struggled over it for two weeks. In the form in which labor costs appear in the act, they are combined with other costs, and the allowable increase is only that after January 1, 1941. In that period (to September 1942), the index of prices paid by farmers rose 24 percent, and of goods used in production 20 percent, while farm prices were rising 57 percent. Thus on no basis that can be employed under the act does the labor cost provision have any meaning at present. It might at some future time, however, if farm wage rates rose greatly.

How the farm bloc senators let the act pass in this form is not simple to understand. To some of them apparently, putting both agriculture and labor on a parallel basis in terms of January 1, 1941 to September 15, 1942,

seemed eminently fair. Actually, it was very unfair, because prices received by farmers in January 1941 were still 40 percent lower than in 1929 whereas hourly earnings of factory workers were then 18 percent higher. To be fair to agriculture, the increase comparable with those for labor in 1941-42 needed to be figured from 1939, or possibly the average for 1937-41. The speaker, as many of you know, called attention to this in his book on "Parity" and in several later releases.

Some of the congressional leaders thought they were getting around this by providing that all farm labor be included, unpaid family and proprietor as well as hired. In report to the House on the conference bill, Congressman Steagall stated in reply to a question that, "As I understand this language, it was intended to embrace all farm labor. I do not see how anyone could contend that you could give adequate weighting to farm labor without considering all farm labor, and that provision relates to the price-fixing powers carried in this bill." But Senator Brown reported to the Senate as follows: "Increased labor costs as reflected in rising wage rates for hired farm labor must be included in determining the extent of increased costs to growers." The language of the act is very general on this point -- "by reason of increased labor and other costs"... "adequate weighting shall be given to farm labor."

In view of the great inequity of using January 1, 1941 as a basing point for agriculture, it would seem proper to give as liberal an interpretation as possible to the labor cost provision. If all classes of labor were included, the 24 percent increase in the index of prices paid would be raised considerably, but would still be far short of the 57 percent increase in prices in this period.

When the War Ends

What meaning has the provision for continuing parity for two years after the war and using 90 percent of it as a bottom below which farm prices will not be allowed to fall? Even though the parity limitations in the present act are discarded or sidestepped in one way or another during the course of the war, it is highly unlikely that this two-year provision will be rubbed out. How will it work when the time comes? First of all, the two-year period is altogether too short. The big break last time did not come until well after two years and our participation in the last war was very brief. The break came much later in England and in France. A few people have even been bold enough to talk about one year of assured post-war prosperity for every year that the war lasts. It is possible, of course, that the farmers of the country will be so enamored of this prosperity that they will not care a hang about having this 90 percent bottom extended, but my guess is that this will be done.

I want to make it clear that I am not predicting a serious post-war slump at any time after the end of the war. I believe that practical working economists now have a pretty good understanding of what is necessary to prevent severe depressions such as those of 1921-22 and 1930-33. Whether or not, however, the general public has such an understanding, or has confidence enough in the potential achievements of the modernized types of fiscal policy professional experts to give them a chance to show what they can do, is a very open question. I think, therefore, that we have to proceed on the assumption

that some kind of a depression will take place sooner or later. The pertinent issue is how much of a depression it will be. We may very well have enough application of modern fiscal policy to prevent anything except a moderate development of price decline and unemployment.

Whatever price decline sets in is likely to be serious enough so that farm price levels will sink considerably if nothing is done about it. They will also sink more than wages as they have on prior occasions. This means that the parity ratio will decline, easily below the 90 percent bottom, if such a bottom is provided. There will be enough unemployment so that the domestic demand for farm products will fall off noticeably. By that time our shipments of farm products to foreign countries will have returned to their post-war normals. We shall have another period of agricultural surpluses. But these should give us no trouble. A stepping up of our present programs of distribution of surplus farm products could easily take care of the situation. By that time the agricultural leaders of the country should have a sufficient understanding of the meaning and possibilities of food distribution to low-income and unemployed families so that they will lend hearty support to such a program. It may well be that not until such an agricultural depression sets in we will have the kind of development of a national nutrition program which this country needs very much during the war period, but which it cannot now promote vigorously because of strong competing demands for food.

Free Competition as an Alternative

We must not, however, shut our eyes to the possibility of a strong reactionary movement at the end of the war. Even among professional economists of a sort are those who are advocating the taking off of all brakes and controls promptly with the armistice and giving to the forces of supply and demand the full freedom which they are now assumed by them to have. Any talk of continuing parity in such a period makes them very uncomfortable. They look upon the whole idea as the wooziest sort of economics. With some of our professional colleagues this discomfort has reached the point where they can scarcely stay in the room when the subject is discussed. One of them told me recently that the last time he even had a slight attack of actual physical nausea. When I ask them what they propose to take the place of parity, the answer usually is "Let things run themselves. Let the law of supply and demand determine what prices are and what is produced."

My reply always is: "That isn't any real substitute for parity. What you are really proposing is a form of anarchy. And anarchy is the worst form of radicalism there is."

What these people don't understand is that the law of supply and demand doesn't work by itself. Perhaps it could if folks would let it. But very few will. They are always interfering with it.

The law of supply and demand isn't a good description of what these people really have in mind. What they mean is "free competition." They are really yearning for a society in which there is absolutely free competition.

No doubt that is the kind of society which most of us would like best. But we have never had it. It would be a society in which all would have an

equal chance, in which all children would start together from scratch and have the same chance at good health, at an education, a good job, and a piece of good land to farm. That's what real free competition would mean.

The kind of departures from free competition that we are most likely to think about, however, are of another description. We think first of the big monopolies that Thurman Arnold is constantly attacking. These are spectacular, but relatively not of major importance. Actually we have a vast amount of private price fixing. The easiest example of this is "resale price maintenance." The manufacturers name the price at which their products are sold at retail, and can refuse to sell to any retailer who disobeys. Around thirty states now have such laws, and the present Supreme Court has declared them constitutional.

The other day I received a letter from by banker announcing that from now on there will be a 10-cent fee charged for every other-bank check handled. This is a rule voted by the association of bankers in greater Boston -- a private price-fixing arrangement.

I don't suppose that you like these private price-fixings any better than I do; many of you would be willing to vote Thurman Arnold all the money he might ask for if you thought he could stop it. He could stop a considerable part of it, but the common garden varieties of it that do the most damage would still flourish.

Most of us do not realize how common such failure to compete is. We have non-competition every time that an efficient manufacturer or a store-keeper does not cut his prices in order to get more sales, just because he believes that his competitors will cut prices also and none of them will sell much more than before, and hence all will make less money.

The effect of this is to keep prices up, and also keep a great many more businesses going. And all of us have to pay for this by supporting a few millions more people in businesses than we need. That's the principal reason why middlemen's margins are so high, and one of the reasons why our cities have so many people in them.

Free competition can be enforced, not fully by any means, but enough so as to give us a largely competitive society. But it would take a large force of government regulators, inspectors, police officers and judges to do it. And our business men and their political friends would immediately call it "interference with private business." What altogether too many of these folks mean by free competition is freedom not to compete, and to exploit the public by not doing so. What they really want is government protection in special privilege, such as many types of business corporations now commonly enjoy.

Clearly we are not going to have free competition after the war. You and I may wish we could have a freely competitive society, and would be willing to support the force of government workers required to attain it. But we won't have our way. Enforcing free competition is never popular. It treads on too many important toes. Our best chance of getting it would be to have a strong consumer movement; and you have all observed how the business world has fought such a movement in recent years.

Instead, what we are going to have at the end of the war is a vigorous attempt to hold prices up, and likewise wages. Industrial wages will be less likely to fall this time. Hence, the only sensible program for agriculture to follow this time is to work toward having its prices sustained on a level comparable with those of wages. We should say to ourselves that in 1930-33 we had our last experience with a major depression in which farm prices were allowed to sink halfway to zero while wage rates fell only a little -- and that we are going to see to it that there is not going to be another. We now know how to keep farm prices from falling, and we can be expected to use that knowledge. The real cost of such a program to the nation will not be serious in the short run, and within a decade will be converted into a large net gain.

When a nation starts out on a program of this sort, it greatly needs some kind of an objective standard by which to determine the right relative levels for farm prices and other prices and farm incomes and industrial worker incomes. Otherwise this is left to determination by political and special interest pressure groups. Wages will be settled by strikes instead of by reference to some such standard as index numbers of the cost of living, and of earnings of capital in industry. Farm price and industrial wage adjustments need so far as possible to be taken out of the sphere of negotiation and made automatic.

Alternatives to Parity

Much as I have considered alternatives in the past ten years, I have found nothing that meets the specifications as well as a proper form of a parity standard. Parity has its shortcomings, Heaven only knows; but all the others suggested have more serious ones. Hence my concern that it be not discarded because of the way in which it has been abused, until someone can produce a better one.

You have just heard an advocacy of necessary prices as a standard to be applied in the war years. I myself have stated that we will have much more concern over necessary prices than parity prices in the years just ahead. I think one can safely assume from Dr. Myers' discussion that he would propose necessary prices as at least a supplement to parity prices in the post-war years. He has spoken of parity prices as furnishing only general guidance.

I don't wish to repeat my discussion of necessary prices in chapter XIII of "Parity, Parity, Parity". It should be clear that they are nothing more than equilibrium prices, that is, supply-and-demand prices. In normal periods in the past, necessary prices have always been lower than parity prices would have been if the latter were adequately based -- for the simple reason that farmers' "reservation prices" have been low. They have been willing, for reasons that take us into the realm of cultural anthropology rather than economics, to keep on producing farm products in volume sufficient to meet demand at prices clearly below those which will give them a standard of living comparable to that of those people who consume their products.

The general trend of farmers' reservation prices, however, has been upward relative to market prices. It is a good conjecture that the war will give them a pronounced upward lift, but I doubt even then if they will reach a level adequate to assure no further surplus, low-price-level agricultural production.

As a program even for normal times, therefore, agricultural statesmen and administrators should recognize the need for maintaining a general level of farm prices somewhat above a supply-and-demand or necessary price level. I would not urge that this level be very far above necessary prices, just as I do not favor setting minimum wages at any one time too far above wages that come to be established under the pseudo-competitive conditions that are likely to prevail in many industries and regions. Pushing such minimums upward by steps, however, is highly to be commended and the same policy can well be applied to farm prices. The surplus foods that may be produced under the stimulus of these supported prices can be taken care of by a much desired program of improved nutrition for the nation.

A particular form of necessary pricing which is receiving some attention in recent years, because of its advocacy by Professor T. W. Schultz of Iowa State College, is referred to by him and his associates as "forward pricing". The next Journal of Farm Economics will contain an article on this subject by Professor Geoffrey Shepherd. A special feature of this system of pricing is that the necessary prices will be announced a year or more in advance so that the farmers will know what to count upon at planting and breeding time. The level of such prices, however, is the supply-and-demand or necessary-price level, except in so far as certainty with respect to what the price is may influence the price that needs to be announced. Professor Schultz agrees that a lower price will bring forth a given amount if announced in advance than are that merely comes out that way as a result of operations on the present basis. (Cf. his article in the last "Country Gentleman".) In normal periods this would mean that forward prices would tend to be a little lower than necessary prices as above defined. However, the accompanying costs would be lower because of removing the risk element so far as prices are concerned and because of advantages in the planning of production.

Professor Schultz and Professor Shepherd propose to take care of the need for additional foods for better nutrition by setting in advance a higher production quota, making necessary a higher forward price. This would involve deliberately choosing in advance the amount expecting to be distributed through the stamp program and other related programs.

Our immediate concern is with respect to how forward pricing would work out at the onset of the post-war slump in employment and prices. If the forward prices were announced two or three years in advance so that the levels would be maintained throughout the depression, the general effect would be the same as the parity price provision in the present price and wage control act, assuming that in due time it is extended to carry on into the depression years. The difference would be that the relative levels for various products might not be the same. At least they would not be if the parity relationships spelled out in the present act were still having any influence on the relative levels of different prices. I have already indicated that this might very well not be the case.

Should the forward pricing span not be long enough for any product to carry clear through the depression period, the price-fixers would be in a somewhat difficult spot. One can safely predict, however, that they would assume that prosperity was just around the corner and maintain the established level of prices as long as possible.

Accordingly in practice, a parity-price standard and a forward-pricing procedure would come out at about the same place.

The Parity Price Standard

The major difficulty with operating during a post-war depression on the basis of 90 percent of parity figured as under the present AAA and related acts is that this will give a very poor fit for different products. The fit is bad enough now and it will be much worse after the effects are all felt. The 90 percent of parity so determined would be clearly too high for some products and away too low for others. If parity could be established for all the different farm products on a rational level, it would not be unreasonable to ask for 100 percent of parity for all farm products in the post-war period. To establish such a level of rationality at any time is not easy, and furthermore the relative level of prices for the different products needs constant adjustment. Nevertheless, such an objective can be reasonably well attained if one goes about it thoroughly and systematically. A margin of error of 5 percent either way would have no serious consequences.

Probably the simplest plan is to provide in some future legislation--it might well have been done in the last piece--that prices of all farm products shall average at 100 percent of parity, and then set up some procedure under which administrative agencies can arrange the various product prices above and below the average according to pertinent criteria. I am prepared to suggest that necessary price would be the most important consideration in establishing this range of prices, but not the only one. Public policy may call for holding prices for some products above the necessary price level in order to assure a sufferable income to farm families in particular areas while needed production adjustments can be worked out. I know that this represents a confusion of the standards of allocation of income and allocation of resources, but such confusion is unavoidable in a real world.

For some time I have believed that the most important idea to get across with respect to the parity standard is that it is an average concept, and that if the average level of farm products can be maintained at some parity considered with respect to industrial wages and other incomes, public administration will have obtained the parity objective. Unfortunately, however, we have always had individual commodity groups insisting that their prices should be increased to as high as the average or they are not being fairly treated. If the price of a given product remains below the parity average for a series of years, the case is clear that some action needs to be taken with respect to it, but that action should consist primarily of readjustment in the production program. Sustaining prices somewhat above the supply-and-demand level while these readjustments are being worked out is all that can safely be undertaken.

Dr. Myers has presented a body of data showing that for New York State as a whole, index numbers of prices paid are considerably higher than those for the nation as a whole, and that parity prices are therefore higher for New York State. I agree with Dr. Myers completely in this matter. For a long time I have maintained that the index numbers used as a guide to public administration should be worked out upon a regional or major type-of-farming area basis. In the chapter on the "Geography of Parity" in my recent book I have developed this idea in considerable detail. Dr. Myers has made his presentation in terms of index numbers of cost of production. The second

master's thesis which was written under my direction at the University of Minnesota--about the year 1920--bore the title "Index Numbers of the Cost of Production" and was written by Warren C. Waite, still at the University of Minnesota as professor of economics. The analysis in that thesis is as valid today as it was then. For administrative purposes, however, such index numbers should include the quantities of labor and other factors employed as well as the prices paid for them. The index then becomes the index of the expenses of operating the farm. Set over against this should be an index of the farm receipts that again takes account both of the volume of sales and the prices received per unit of the product.

Such index numbers can be worked out on an individual commodity basis, but obviously they do not tell the whole truth unless they take account somehow or other of the other lines of production combined with this product on the farms in the region. In the last analysis, therefore, such index series should be upon the basis of prevailing systems of farming rather than upon an individual commodity basis.

This, however, represents a degree of perfectionism in administration which we probably have no right to expect in the near future. Some brilliant agricultural leader either within the Department of Agriculture, or out in the states, or on the staffs of the farm organizations might indeed get such a program accepted within a few years. But in the ordinary course of events we will have to wait for time and the slow process of education to take us there. In the meantime, all our administrative undertakings that are tied to parity will be more or less in the nature of makeshifts. But that is what most of public administration consists of anyway. If you do not recognize this, then you are denounced for not being a realist.

* * *

1170
C2048
1942

UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics
Washington, D. C.

THE FARM LABOR SITUATION

Address by Raymond C. Smith, Chief Program Analyst, Bureau of
Agricultural Economics, at session of 20th Annual Agricultural
Outlook Conference, Washington, D. C., Oct. 21, 1942

None of us yet knows what agriculture's 1943 production goals will be. But we do not have to know the precise figures, to realize that America and its allies need all the food that our farmers can produce. In this world-wide struggle of freedom against tyranny, until the war is won, there can be only one way for needs to go. That way is upward.

Our food and fiber needs, of course, dictate the extent of our need for labor on farms. Since food needs are continuously rising, our total needs for farm labor are also increasing. To a considerable degree, this war is one of supplies; a continuing battle against shortages. That applies to soldiers, ships, airplanes, and tanks. It also applies to food, farm machinery, fertilizer; and farm labor. In this war, more perhaps than is yet realized, we cannot have all the things we want for our wartime tasks. We are going to have to do the best we can with what we have.

This is especially true in the matter of farm labor. We will not be able to get all the farm labor wanted, of the kinds wanted, just at the time it is wanted, and at all the places wanted. There are not enough farm workers available for that, and there no doubt will be fewer of them before the year 1943 ends. The labor supply will have to be taken into account from year to year in setting the production goals for agriculture. Those goals must be an expression, not only of the food needs of the United Nations, but of production possibilities on American farms, in light of labor and machinery and fertilizer supplies. Thus, while the labor requirements of agriculture will be influenced by the size of the coming production goals, labor supplies will be limiting factors upon the goals.

Let us analyze the farm labor situation. There were approximately 12 million in the farm labor force on July 1, 1941, and approximately the same number on July 1, 1942. Farmers in 1942 accomplished the stupendous task of increasing agricultural production by approximately 13 percent over last year's record production, without increasing the farm labor force. Yet, during the last 2 years, agriculture has contributed more than 2 million workers over 14 years of age to nonagricultural industry and the armed forces. It has replaced necessary workers largely with women and children and older men and by more effective use of the labor force which remained.

Two years ago there was considerable surplus in the farm labor force. During the depression years, the usual farm-to-city migration had been very materially reduced, and we had an accumulation of workers in agriculture which caused both unemployment and underemployment on farms. Thus, at the beginning of our efforts greatly to increase agricultural production, we had a very plentiful labor supply. Since then, however, we have lost thousands upon thousands of workers of the types usually employed on farms. And now, in view of our continuing need for increased agricultural production, we are confronted with trends which, if they are permitted to persist, are likely to prevent us not only from obtaining greater production of certain necessary foods in 1943, but conceivably might force a reduction in agricultural production.

The fact that agriculture, with the help of the weather, but without the help of more workers than it had a year ago, was able to increase production so substantially this year indicates that so far we have been able to meet the farm labor problem pretty well by utilizing types of workers usually not in the farm labor force and by utilizing additional time of farm laborers, i.e. by employing them more days per week and more hours per day. It seems to indicate further that for most parts of the country concern over farm labor shortages during the past two years may have been legitimate insofar as anticipated future problems were concerned, but, except in some local areas, particularly those near war industries, may not have been fully warranted insofar as the current situation was concerned from time to time throughout these two years. But now we are beginning to scrape the bottom of the barrel on farm labor supply and it appears that to have sufficient farm labor next year will require more ingenuity not only on the part of farmer employers but also on the part of government.

If present trends continue, agriculture probably will lose a million workers from its labor force between July 1, 1942 and July 1, 1943. By October 1, 1943, the end of the harvest season, the prospective loss will amount to 1,300,000 workers. At the same time, needed agricultural production next year would require 200,000 more workers than were available in 1942. To meet these needs to the full, next year we would have to recruit $1\frac{1}{2}$ million new workers.

These figures are based on certain assumptions as to the course of events next year: (1) That the armed forces will increase to 8 million by the end of 1943 and that the proportion coming from farms will remain the same as in the recent past; (2) That nonagricultural employment will increase from 42.1 million on July 1, 1942 to 44.0 million on July 1, 1943; (3) That full employment will have been reached by the end of 1943 (except for a minimum unemployment allowance for temporary layoffs, time lost between jobs, etc., of 2 million); (4) That total annual productivity of agricultural workers will continue to increase; and (5) That the net movement from farms will continue at current levels. As the conditions stated in these assumptions change, the figures will have to be modified accordingly.

The probable difficulties of recruiting an additional $1\frac{1}{2}$ million workers would be hard to exaggerate. Perhaps public action can be taken to relieve some of the need for new workers. However, if agriculture has to recruit this many new workers, most of the likely sources for this labor are the following groups:

1. 250,000 farm boys reaching the working age of 14 years, in excess of deaths among men in the farm work force.
2. 50,000 reduction in unemployment on farms, mostly of older men and physically handicapped persons.
3. 700,000 more women to be employed.

4. 100,000 more nonagricultural workers who live on farms, to perform farm work in addition to carrying on their usual occupations.
5. 100,000 more children under 14 years of age.
6. 300,000 increase in town and city residents who work in agriculture.

Should agriculture have to recruit $1\frac{1}{2}$ million new workers from these sources, the 12,200,000 agricultural working force on October 1, 1943 would be constituted as follows:

- 9.1 million persons over 14 years of age living on farms.
(About 20 percent of this number would be women and about 20 percent of all farm women would be working in agriculture.)
- 1.4 million persons who do not live on farms but who will be working in agriculture.
- 1.0 million persons living on farms working chiefly at non-agricultural work who will do some farm work.
- .7 million children under 14 years of age.

But there is also another important source of farm labor. This is the reservoir of under-employed farm operators, who because of limited land, limited operating capital, lack of knowledge, or for other reasons are producing very little for the market. About 2 million farms, or one-third of those reported in the 1940 census reported gross incomes of less than \$400. About half of the production on these farms was consumed on the farm and on the average these farms sent only about \$100 worth of products to the market. This third of the farms produced only about 3 percent of the marketed crops. There are also many under-employed farm operators in the middle third, those who reported gross incomes between \$400 and \$1,000, and those who contributed only 13 percent of marketed crops.

While it should be recognized that these groups contained a disproportionately large number of farm operators over 65 years of age, and also many operators who were spending most of their time at some nonagricultural job, it seems quite clear that between one-half million and one million of these operators might be assisted into more productive work either in agriculture or in industry. Should a part of these people be drawn into industry, to that extent fewer workers from the more productive farms would be needed in industry. If the remainder were assisted in migrating to jobs on farms in more productive areas, farm labor problems there would be alleviated to a considerable extent. If these adjustments were made, and at the same time those underemployed operators who remained were assisted through loans and supervision to operate the lands abandoned by their neighbors, it would probably be possible to keep agricultural production for the market as high in these poorer areas, or even higher than before, through utilizing more fully the labor of those remaining.

By utilizing the wasted time of under-employed operators through such efforts it would be possible to reduce the total manpower requirements in agriculture, to reduce the industrial drain on manpower located on the more productive farms, and to contribute to the better agricultural areas male workers, who even though not as skilled as the workers who have already been lost might be trained to perform some-types of farm work much more effectively than women or children.

To prevent disastrous shortages of farm labor, drastic reduction in agricultural production, is a prime concern of the nation. It will not be an easy task in 1943. It certainly will be necessary for farmers to economize in the use of labor and to employ as fully as possible the existing labor supply, to adjust farming practices to reduce or spread out peak labor requirements, to pool available labor for the fullest possible utilization within the community, to cooperate in the use of labor saving machinery, and to utilize types of labor not usually relied upon extensively, such as women, children, and older and physically handicapped people, wherever possible. It also may become necessary to reduce the production of high labor-requirement crops wherever substitute crops requiring less labor may serve the same purpose, or where we can dispense with the commodity, or get along with less of it, without serious consequences.

Obviously the farm labor situation in 1943 will be influenced materially by the recruitment policies of the U. S. Employment Service in the industrial as well as in the agricultural field. The extent to which women are employed in industry to replace men who go into the armed forces and to fill requirements for additional labor will affect the numbers recruited from farms to work in industry. In so far as additional farm workers are needed for war industries, intensive recruitment efforts in areas of agricultural under-employment would have far different effects than heavy recruitment in the areas of high agricultural productivity. The farm labor situation also will be affected by policies of the Selective Service System concerning deferment of essential skilled agricultural workers.

The scope and size of programs of the Department of Agriculture in regard to transportation and housing of needed workers, to the setting and distribution of production goals, and to the encouragement of production, will also have a marked effect upon the labor situation in 1943. New laws which may be passed, policies and directives of the War Manpower Commission, farm wage policies, effectiveness of programs for training new workers in agricultural skills, and even the weather, need to be taken into account. One of the most important factors in the farm labor situation in 1943 will be the extent to which farmers and others organize for the efficient utilization of agricultural workers and of other persons in their localities who can be made available for seasonal farm work.

At present we can only speculate upon the effects of some of these elements upon the farm labor situation. But it does appear likely, particularly with a large and scarcely touched reservoir of under-employed farm operators and with the ingenuity and determination which are characteristic of farm people, that the means will be found, granting favorable weather, to maintain agricultural production at a level near that of this year.



190
C-20u8. c.
1942

UNITED STATES DEPARTMENT OF AGRICULTURE
Washington, D. C.

FARM LABOR PROGRAM OF THE DEPARTMENT

Address by David Meeker, Assistant Director, Office for Agricultural War Relations, U. S. Department of Agriculture, at session of 20th Annual Agricultural Outlook Conference, Washington, D. C., October 21, 1942.

I don't want to start this discussion with the false assumption that the Department of Agriculture has a program to solve every phase of the 1943 farm labor problem which is all set and ready for announcement today. Our farm labor problem is only a segment of the total national manpower problem, and many of the decisions which must be made and many of the programs that must be developed will be possible only after overall national decisions have been made on manpower policies. These decisions are in the making at the present time.

Perhaps we should review some of the activities and experiences of 1942, since any labor program for 1943 must be based on what we have learned from our activities and experiences this year. Even during the crop year of 1941, indications pointed to increasing agricultural labor stringencies during 1942. The forces affecting the agricultural labor market in 1941 were thrown into sharp focus, and immediately following Pearl Harbor the problems were greatly intensified. The need for positive action along several lines became apparent. In an effort to meet the farm labor stringencies of 1942, necessary actions were planned along four general, broad lines:

First, action to secure full utilization of the labor force normally employed in agriculture.

Second, action to retain key workers on farms.

Third, action to recruit additional workers from groups not normally employed on farms.

Finally, action to allocate production insofar as practical in accordance with areas having potential farm labor reserves.

To effectuate this broad program, working relationships were developed with the United States Employment Service, with the Selective Service System, and with all other governmental agencies having programs affecting the farm labor supply. Instructions to take action on these four fronts were sent by these agencies to their field representatives. The United States Department of Agriculture instructed the War Boards to work with farmers in developing programs to utilize more fully available workers. Reports indicate that their activities included the intensification of custom work, labor pools, other forms of "neighboring", and various labor-saving farm management practices.

To assist in retaining key workers on farms, the Selective Service System instructed local boards to give consideration to granting occupational deferments to essential workers in agriculture. Arrangements were made whereby the Department, in Washington and through the State and County War Boards in the field, is supplying the Selective Service System, including the local draft boards, with information about agricultural production and national and local labor conditions necessary to the proper classification of registrants. Farmers improved housing and working conditions and in most areas increased wage rates in an effort to retain key workers on farms.

In addition, the War Boards have cooperated with the Employment Service in tapping numerous unused sources of farm labor. The obvious sources were utilized first. The Works Projects Administration actively cooperated in transferring WPA workers to farm jobs, and the Civilian Conservation Corps furloughed boys for farm jobs as long as there was anyone to furlough.

Arrangements were made for the recruitment of school youths, urban people (including women), and other part-time workers for peak harvest periods. In California, more than 100,000 people not normally in the agricultural labor force participated in harvesting this season's crops, particularly fruit. Some of these people worked over the weekends; others worked evenings after their regular jobs were done; and still others, mainly women and youth, worked full time through the harvest season. Arrangements made with the War Relocation Authority resulted in the employment of many thousands of Japanese evacuees as agricultural workers. In addition, Mexican and Canadian agricultural workers were brought in to the United States under agreements with the governments of Mexico and Canada, and transportation was made available to move domestic workers into needy agricultural areas.

These activities brought into light numerous problems which required consideration. Among the more serious and widespread were the problems of transportation; housing; facilities for feeding workers; wage rates; labor hoarding; the resistance on the part of many farmers in certain areas to employment of inexperienced and less efficient help than is normally available; the inadequacies in many areas of the means for recruitment and placement and the inadequacies of basic farm labor information upon which to base policy decisions and formulate programs of action. Inertia and a belief in the possibility of continuing "farming as usual" was a serious problem.

Progress has been made, but it is only a beginning in the solving of the farm labor problem. Evidence is accumulating daily which indicates that the situation is becoming increasingly serious in spite of all our efforts. The actions taken during 1942 must be enormously expanded if the problem of obtaining adequate supplies of farm labor is to be solved in 1943.

In addition to allocating increased production goals to areas with a potential farm labor reserve, it will be necessary to utilize scarce labor as well as scarce machinery, fertilizer, and transportation for the types of agricultural production most essential in the war effort. The major bottleneck in agricultural production in 1943 will be farm labor, and our total national manpower shortage is so serious that we cannot hope to maintain normal levels of all agricultural production any more than industry has been able to maintain the production of automobiles, refrigerators, washing machines, and other consumer durable goods that are not essential to the winning of the war. To sum up, the policy must be to allocate labor to the products most vitally needed in the war effort.

In preparing to attack the farm labor problem of 1943, the Department is actively planning the following actions:

First, workers must be more effectively employed on farms of average to higher productivity.

Second, the more complete utilization of underemployed farm workers, such as fuller employment of farmers on submarginal and subsistence farms. It is estimated that there are about two million such underemployed farm families in the United States. Many farmers on submarginal and subsistence farms have adequate skills but are so handicapped by poor land and poor equipment that their efforts add little to the national production. The potentialities of these farmers in the agricultural labor field must be more fully realized.

Experience gained in 1942 indicates the feasibility of recruiting these workers and the placing of them on more productive farms in other areas, either as operators or wage workers. This vast group of farmers must be given an opportunity to do their part in the war program. Since farmers recruited from areas of surplus agricultural population cannot be expected to have all of the skills and experiences necessary for many types of farming in which it is desired that they be employed, maximum utilization will require provision for some training for the new activities. The Department is taking definite steps to promote such training programs.

Third, the program of domestic transportation of labor must be enormously expanded in order to correct the current maldistribution of the labor supply and secure better utilization of available workers. The shortage of rubber and the rationing of gasoline has seriously curtailed the ability of workers to transport themselves. Experience being gained now by the Farm Security Administration indicates that government transportation of farm workers is both feasible and practical. However, the government cannot be expected to transport all migratory workers for seasonal crops, and government aid must be confined to movements over considerable distances for the production of essential crops.

Fourth, action to tap new sources of labor must be greatly intensified. Although women, school youth, part-time workers, and non-agricultural people were employed to a considerable extent during 1942 to meet seasonal peaks, the efforts were largely localized. Prospects of a nationwide shortage of such workers for 1943 makes necessary a nationwide approach to the problem of organizing and using these workers.

Fifth, to supplement the domestic labor supply next year, some workers may again be imported from Mexico and Canada. This year approximately 4,000 such workers have already been employed, principally in Maine and California. It must be recognized that the importation of workers from these countries will contribute only to a very limited extent to the solution of the farm labor problem in the United States. Mexico, and to a much larger extent Canada, are both experiencing difficulties with regard to farm labor supply. Workers who may be made available from these countries should be considered as emergency groups to help alleviate local situations.

Sixth, with increasing demands for workers in war industries and the necessary expansion of our armed forces, vigorous efforts must be made to retain a basic core of skilled workers on farms. A cooperative agreement was worked out with the Selective Service System early in the year under which State and County U. S. D. A. War Boards have provided the Selective Service System, when requested, with information on agricultural production and local labor requirements. The War Manpower Commission has issued a list of activities essential to the war effort in which agriculture appears fifth among the 34 activities listed. This list, together with lists of critical occupations in each activity, is used by the Selective Service Boards as a guide in making occupational deferments. This list is also used by the United States

Employment Service in referring workers from non-essential to essential activities.

While this procedure has been helpful, experience indicates that it does not go far enough and recently an overall plan has been developed to stabilize the employment of workers, including operators and unpaid family labor, on dairy, poultry and livestock farms. One problem in effectuating such a program is the wide disparity between farm and industrial wage rates. Wages alone are not the only key to the farm labor problem. Farmers cannot compete with industrial wages. Farm income, however, is now high enough to enable most farmers to pay higher wages and reports indicate that adjustments are being made.

A significant lesson to be learned from our experience in 1942 is that the machinery for effectuating successful programs must be organized and made effective in each community and neighborhood and must reach each farm which requires outside labor. None of these activities can be satisfactorily carried out without complete cooperation among farmer employers, farm workers, and agencies of the Department, the local offices of the United States Employment Service, the local boards of the Selective Service System, and other agencies whose activities affect the supply of farm labor. Similarly, satisfactory policies and programs cannot be developed in Washington without basic and unbiased factual information about actual conditions in the various counties, areas, and States.

The shortage of farm labor is one of the most difficult phases of the total national manpower problem and is the serious problem confronting agricultural producers in 1943. It is believed, however, that a cooperative program, developed along the lines which have been outlined, will assure sufficient manpower for agriculture to make possible the production of the essential agricultural commodities. We cannot, however, expect to muster sufficient labor to maintain production of all of the agricultural products we have been accustomed to producing or that we could expect to sell to consumers, but we believe we can so manage our labor force as to produce the essential food and fiber products so necessary for the victory of the United Nations.

70
2048
742
UNITED STATES DEPARTMENT OF AGRICULTURE
Washington, D. C.

MACHINERY AND OTHER PRODUCTION MATERIALS PROBLEMS

"Bricks Without Straw"

Address by Sherman E. Johnson, Chief, Production and Supplies Branch,
Office for Agricultural War Relations, at 20th Annual Agricultural
Outlook Conference, Washington, D. C., October 21, 1942.

Scripture reports that the Hebrews were requested by their Egyptian taskmasters to produce their previous quota of bricks without being furnished any straw for the process. Today we don't use straw in making bricks, but at that time the Hebrews were given a seemingly impossible task -- to produce a product without one of the materials essential to its production. As a substitute for straw they had to gather stubble. The record does not indicate that a new process of brick making developed as a result of this order, but many new developments have originated from acute needs of that type.

The task facing farmers in 1943 is somewhat parallel to that of making bricks without straw in ancient times. Farmers are being asked to produce a maximum output of food with less labor, less machinery, fencing, fertilizer, insecticides, and containers than were available in 1942. Many of us will say that this is an impossible task. Farmers can't produce without labor and tools any more than the airplane manufacturers can make airplanes without labor and materials of production. This, of course, is true if we are short of all materials and all labor. Fortunately for farmers, and for the country, there is a fairly wide margin of elasticity in farm production on family farms, both in the use of labor and machinery. Whether the margin is wide enough to maintain production at present levels is a moot question. Most certainly the job will be hard. But it is difficult to say how much production will be cut down because of a shortage of labor, of machinery, or of any other one production factor. However, an accumulation of shortages in labor, machinery, and other materials is much more serious than a shortage in one factor alone. If machinery were available it could be substituted for labor to a considerable extent, but in the present situation this is not possible. So, the question becomes one of whether there is enough elasticity left for the farm operators to carry on production on a high level. In order to throw more light on that question we need to examine some of the facts with respect to shortages in specific factors.

Farm Machinery

Next to labor (which has been discussed by the previous speakers) the most important shortage is likely to be farm machinery. The year 1940 represented a fairly high level of farm machinery production. For 1942, manufacturers were limited to 83 percent of their 1940 production with a wide range in limitation on specific machines. Milking machines, for instance, were permitted up to 206 percent of 1940 production.

The limitation order for the year beginning November 1, 1942, has now been signed in W.P.B. providing for manufacture of machinery at a level equal

to 20 percent of the average of 1940-41. An allocation of steel and other materials has been made for the last quarter of this year which approximates a level not much higher than one-fourth of the machinery produced in 1942. Furthermore, in the past year there were large inventory stocks in dealers' hands, and now there are none. This, of course, results in an extremely tight situation on new farm machinery and equipment.

Temporary rationing of 18 machines is now being carried out by county rationing committees. It is contemplated that about four times that many items will be rationed for next year. The purpose to be served is to prevent hoarding, and to try to get machines in the hands of farmers who can make the greatest use of them in food production. If repairs are available as needed, the question is how far old machines can be repaired to do the work for another season. Fortunately, it is contemplated that machinery repairs will be available as needed, although the long delay in signing the limitation order may delay manufacture.

Fencing Materials

Fencing materials are even more scarce than new farm machinery. There are practically no stocks on hand. A request last July for 50 percent of the 5-year average manufacture has just recently been approved by W.P.B. It is now expected to run for the last quarter of 1942 and the first quarter of 1943. It will be 50 percent in terms of roddage, with lighter gauge, and simplification of design cutting weight down about one-third for permitted roddage to be manufactured. Fencing will be rationed along with machinery.

Fertilizer

The supply of phosphates and potash seems to be adequate for 1943 needs. Triple superphosphate will be somewhat limited by Lend-Lease shipments, but ordinary superphosphate can be substituted to meet phosphate needs. Nitrogen supplies will be limited, but if carefully handled we can probably meet our most necessary needs. Rationing in some form will be necessary. At present it is contemplated that some 500,000 tons of oilseed meals be diverted to fertilizer use. This would relieve the shortage considerably. W.P.B. Chemical Fertilizer Conservation Order No. M-23 limited nitrogen content of grades to be manufactured, and specified that no chemical nitrogen could be used for non-essential uses such as lawns, golf courses, etc., or for fall-sown grains for harvest. It may be desirable to restrict uses still further.

Building Materials

Limitation Order L-41, issued several months ago by the War Production Board, places many restrictions upon new construction. The purpose of the Order was, of course, to restrict the use of critical materials to types of construction that are essential to the war effort.

Under the terms of this Order, a farmer may, without specific approval of W.P.B., make improvements to his dwelling costing not in excess of \$200, or he may expend during a 12-month period not more than \$1,000 on any other farm buildings. For any new construction in excess of these amounts, the farmer must obtain the specific approval of W.P.B. For any new agricultural

construction beyond the specified exemptions, the procedure is for the applicant to file Form PD-200 with his County U.S.D.A. War Board. The application then goes to the State U.S.D.A. War Board, and from there to the Washington office of A.C.A.A. An application may be rejected at any one of these levels. If the new construction is deemed essential to the war effort, the application is transmitted to the Construction Bureau of W.P.B. for final approval.

Another Order that definitely affects building materials is M-208. This Conservation Order was intended to control the distribution of softwood lumber to essential uses in light of their relative importance to the war. Under this Order the various types of construction are divided into four classes. The first class (designated as List A) is limited to defense construction carrying very high priority ratings. Virtually all agricultural construction that would be deemed essential to the war effort is listed in Group B. A blanket priority rating of A-1-a is assigned to all uses coming within this group.

Insofar as sale to the farmer is concerned, the M-208 Order is quite satisfactory, but it does not contain a satisfactory procedure whereby the local lumber yards can replace material sold to farmers. This simply means that in time the local dealer who sells largely to farmers would be out of business. In order to correct this situation, the Lumber Branch has agreed to process applications from the local lumber yards to permit the replacement of a reasonable part of their normal inventories, so that they may continue to supply the farmers with material for essential uses.

Nails are now being produced at the rate of 75,000 tons per month and may be sold through regular distribution channels without a priority rating. Consequently, in most areas, except where a large amount of war construction is under way, minimum stocks are available.

Insecticides and Fungicides

Although tight supply situations exist with respect to several insecticides and fungicides it appears that with careful handling the necessary needs can be met.

Nicotine.-- Recognizing that supplies of many insecticides, particularly rotenone and pyrethrum, might be inadequate because of shipping conditions, the Secretary has approved a diversion program involving 25 million pounds of tobacco. Close to 2 million pounds of nicotine sulfate will be made through the tobacco diversion program. With this additional quantity of nicotine sulfate we will have available about 4 million pounds. This should take care of export requirements and normal uses, as well as additional demands occasioned by the shortage of other insecticide chemicals. The Bureau of Entomology and Plant Quarantine has worked up a program indicating where nicotine sulfate can serve as a useful substitute material.

Pyrethrum.-- Until recently we had anticipated the arrival of about 20 million pounds of pyrethrum from Kenya Colony. This assumption was based on reports from the American representatives of the Kenya Colony growers. Owing to the effect of the monsoon and the subsequent growth of pyrethrum plants largely into leaf rather than flowers, it is doubtful whether we will

have more than 12 million pounds available. Of this amount a considerable proportion will be needed for military requirements; consequently, agriculture's needs will have to be held to the most essential uses.

Rotenone.— We must now depend wholly upon South America for our supply of rotenone-bearing roots. Imports from this source are not sufficient for all needs, but it appears that minimum amounts will be available for the most essential agricultural uses. Dosages can be reduced considerably without affecting materially the degree of control in many uses.

Copper.— Copper is perhaps the most vitally needed of any of the insecticides and fungicides, since there is no substitute for most of its uses. It is literally true that without copper to make Bordeaux mixture it would be impossible to raise potatoes in Maine and also in certain other regions. Bordeaux is also essential in protecting apple trees and many other fruits and vegetables against destructive fungi. It is estimated that 80 million pounds of copper sulfate are consumed annually as a fungicide and 5 million pounds are used in treating soil. In addition, about 1 million pounds of the red and yellow copper oxides and 2½ million pounds of basic copper carbonate are used as fungicides and for seed treatment. All this totals to the equivalent of 13,400 tons of metallic copper. In spite of this country's large production of copper, the demand for it for making shells and other war materials is even greater. It is imperative that the dosage of copper fungicides be regulated to the minimum that will give economical control. Potatoes are often oversprayed with Bordeaux mixture. Farmers will need information on how best to economize on copper materials.

Mercury.— Mercury has been curtailed in its uses by War Production Board Conservation Order No. M-78. Since April 1, the use of mercury in the manufacture of marine anti-fouling paint, turf fungicides, and wood preservation (except Sitka spruce) has been prohibited. However, 85,000 pounds of metallic mercury were allocated to the manufacture of organic mercurials for use as seed disinfectants and this amount will be increased to 95,000 pounds for 1943. This should provide an adequate supply of materials for the treatment of wheat, oats, barley, flax, sorghum, and cotton seeds. Moreover, certain strictly organic compounds have shown remarkable fungicidal value in preliminary tests. These results lead us to hope that the demand for mercury and possibly also for copper for fungicidal use may diminish.

Efficient Farming Despite Labor and Material Shortages

I mentioned at the outset that there was tremendous elasticity in the use of resources on family farms in this country. It is the job of extension workers and others to work with farmers in helping them to stretch that elasticity to the utmost in the coming year. We need to develop new concepts of what constitutes improved farm practices under a shortage situation. We also need to acquaint farmers with ways of overcoming shortages by the use of substitute materials or in other ways.

Many of our standard "improved practices" do not fit in the present situation. They will need to be modified. Adoption of many other "improved practices" becomes more important than ever in the present emergency situation. To do that quickly enough to count in 1943 will be the most difficult job of extension work that has ever been undertaken.

One very considerable help in developing practices to offset labor and material shortages is the relatively plentiful supply of feed grains. It will take less labor and materials to produce the additional meat from feeding hogs to heavier weights than it would to produce more hogs. Moreover, at present and prospective price relationships it will pay farmers to get a part of their output in this way.

It requires less labor than handling more cows, and no new equipment to produce more milk by feeding dairy cows much more heavily than most farmers have done in the past. We will have 43 percent more oilseed meals available for feeding to livestock than we had in 1940. If this could all be used to balance up the protein in the livestock rations, a considerable increase in production could take place with scarcely any expenditures of labor and scarce materials.

In many areas of small general farms, the machinery on each farm is by no means being used to capacity. A good inventory of machinery available in the county needs to be matched against the job to be done for each type of machine. A "share your machinery program" could then be developed similar to the present "share your car programs." Trading machine work for labor at standard rates, doing more custom work, and encouraging cooperative use of machinery all have a place in such a program. Along with vigorous machinery repair campaigns these steps may get us over the hump of 1943 machinery shortage. It won't be done without considerable effort, and some crops may be lost in the process.

In the depression year of 1932, production was maintained at a high level with the purchase of not much more machinery and other materials than will be available for 1943. Labor, of course, was plentiful, but prices were at give away levels. Next year prices will be relatively high for the products which we so badly need. Under normal weather conditions the inducement that farmers will have through satisfactory returns for doing the job, as well as the prospect of service to the country by producing a much needed food supply, may work greater wonders with 1943 production than we can foresee at the present time.



Adjusting Marketing and Transportation
to War Needs

F. L. Thomsen
Head, Division of Marketing and
Transportation Research, Bureau of
Agricultural Economics

Dr. Thomsen's discussion was based on material which is also contained in the 1943 Outlook issue of the Marketing and Transportation Situation. In view of the shortage of paper and stenographic help, there seemed to be no need for separate mimeographing of the talk. A copy of the report is attached hereto.

The Marketing and Transportation Situation is a relatively new publication of the Bureau with which some State extension and research workers may not yet be familiar. Those who have real need for the report and who wish to be placed on the mailing list should write to the Division of Economic Information, Bureau of Agricultural Economics, Washington, D. C.

THE Marketing and Transportation SITUATION

BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

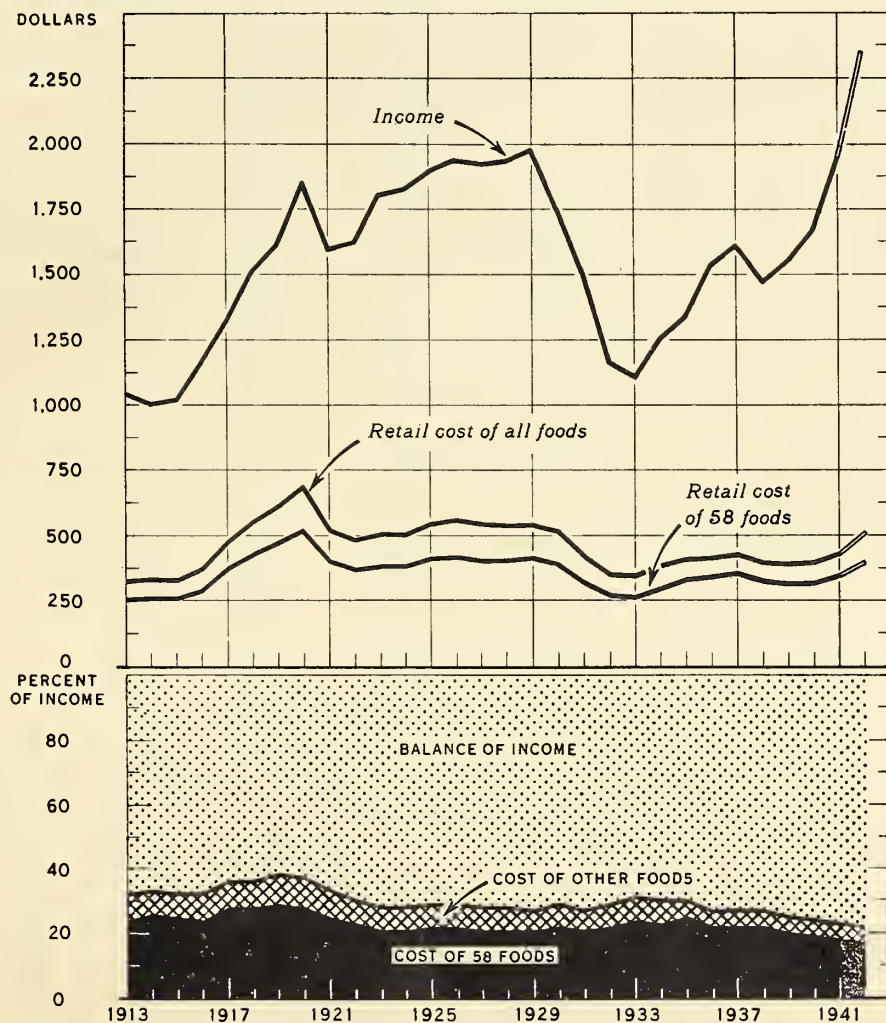
MTS-4

BAE

SEPTEMBER-OCTOBER 1942

1943 OUTLOOK ISSUE WITH CHARTS

NONFARM FAMILY INCOME AND COST OF COMPARABLE FAMILY FOOD PURCHASES, UNITED STATES, 1913-41, AND AUGUST 1942



U. S. DEPARTMENT OF AGRICULTURE

NEG. 39888 BUREAU OF AGRICULTURAL ECONOMICS

FAMILY FOOD COSTS REPRESENT A RECORD LOW PROPORTION OF URBAN FAMILY INCOME. THIS REFLECTS MAINLY THE RAPID INCREASE OF INCOMES DUE TO WAR ACTIVITY, AND RELATIVELY LOW MARKETING CHARGES ARE A CONTRIBUTING FACTOR.

Table 1.- Nonfarm family income and cost of family food purchases, 1913 - 1942

Year and month	Family	Retail	Retail	Food cost as percent-	
	income	cost	cost	age of income	
		of all	of 58	All	58
		foods	foods	foods	foods
	Dollars	Dollars	Dollars	Percent	Percent
1913	1,046	326	252	31	24
1914	1,013	334	258	33	25
1915	1,029	330	258	32	25
1916	1,176	370	285	31	24
1917	1,329	477	370	36	28
1918	1,513	548	424	36	28
1919	1,624	611	470	38	29
1920	1,857	688	514	37	28
1921	1,599	523	404	33	25
1922	1,629	489	374	30	23
1923	1,810	506	384	28	21
1924	1,829	501	381	27	21
1925	1,905	542	410	28	22
1926	1,944	560	418	29	22
1927	1,927	539	406	28	21
1928	1,942	533	407	27	21
1929	1,979	540	415	27	21
1930	1,762	514	391	29	22
1931	1,505	424	322	28	21
1932	1,159	353	270	30	23
1933	1,105	343	264	31	24
1934	1,251	382	295	31	24
1935	1,338	409	331	31	25
1936	1,548	413	342	27	22
1937	1,614	429	353	27	22
1938	1,471	399	321	27	22
1939	1,558	388	311	25	20
1940	1,671	394	314	24	19
1941	1,956	430	342	22	17
1935-39 average	1,506	408	332	27	22
1942 -					
Jan.	2,152	474	378	22	18
Feb.	2,173	476	381	22	18
Mar.	2,200	484	384	22	17
Apr.	2,233	488	386	22	17
May	2,259	496	392	22	17
June	2,313	502	398	22	17
July	2,342	508	401	22	17
Aug.	2,366	514	402	22	17

Comparisons in this table are very rough estimates which refer to the typical workingman's family of 4.9 persons representing the average obtained in the 1918-19 Cost of Living Survey of the U. S. Bureau of Labor Statistics. The survey averages were \$1,513 for family income and \$548 for total food expenditure and it was assumed that these represented the calendar year 1918.

The series of family income estimates was obtained by applying to the \$1,513 in 1918 changes in per capita nonagricultural income payments to individuals. The series of family cost of all goods was obtained by applying to the \$548 cost in 1918 changes in the index of retail food prices as computed by U. S. Bureau of Labor Statistics. The cost of 58 foods is from table 1 of this report. These series should be interpreted with care. Both the cost of all foods and the cost of 58 foods refer to fixed quantities of each food as purchased in 1918. Under circumstances of changing income and changing food prices a typical family would alter quantities purchased and alter the food outlay. The comparisons do show the costs at which a family could purchase identical quantities of foods and what share of income this would require in each year.

THE MARKETING AND TRANSPORTATION OUTLOOK FOR 1943

CONTENTS	PAGE
General Summary	3
Transportation	4
Marketing Facilities and Methods	8
Marketing Margins and Costs	14
Regular Monthly Review and Tables	22
Outlook Charts	29

General Summary

Adjustments in agricultural production to meet wartime needs took place soon after the outbreak of war. Despite the cutting-off of many foreign markets, however, the marketing and transportation systems continued to operate without much change, at least until the advent of price ceilings last spring. Although the effects of the war on marketing and transportation were delayed, they may in time be even greater than the impact on production. Conditions are now developing which indicate that many drastic adjustments in marketing and transportation facilities and methods are inevitable.

The livestock marketing and transportation system must be adjusted to a volume of operations never before achieved, with the critical period coming in 1943-44 when marketings are expected to reach a wartime peak and truck transportation facilities will have been depleted. Many important adjustments also are called for in the livestock and meat trades, as a result of the diversion of certain livestock products from civilian to war uses and the imposition of price ceilings.

A shortage of materials and tin cans, together with price ceilings and other developments, promises to effect a virtual revolution in fruit and vegetable marketing conditions. The large-scale substitution of domestic for imported fats and oils has created many problems, since processing, storage and transportation facilities are not well adapted to handle the enormous crops of oilseeds now being grown domestically. Dairy and poultry marketing are vitally affected by the shifting needs for the several finished products, and by the prospective critical situation in truck transportation, which plays such an important part in the marketing of these as well as other farm products.

The advent of price controls, which are likely to become more rather than less complicated as the war progresses, and the imminence of food rationing with respect to commodities which may have been considered surpluses not long ago, further complicate the marketing situation.

We are approaching the limits of our capacity to expand the transportation system as a whole. In addition, the efficiency of the agricultural trucking system may decline at a greatly accelerated rate, at the very time that our railway transportation system will find it most difficult to take on new burdens.

Thus far during the war the marketing and transportation system has done a good job in meeting increased requirements, while at the same time reducing the over-all per unit charges for its services, although freight rates have increased. The big increase in consumer expenditures for foods has been passed back in full to the farmers in the form of higher prices. But an upward trend of wage rates and other costs in marketing and transportation industries points to an early

reversal of the downward trend of marketing margins which has been in effect in recent years. If margins should be forced upward as much as certain possibilities indicate, the repercussions on farm prices and income, as well as on price ceilings and marketing practices, would be far reaching.

This general outlook for marketing and transportation in 1943 and as long as the war lasts points to the need for vigorous action by producers, middlemen, consumers and Government agencies in order to anticipate bottlenecks before they arise and bring about their solution.

THE TRANSPORTATION OUTLOOK FOR 1943

Measured in ton miles and passenger miles the volume of rail traffic in 1942 will probably exceed that in 1941 by the following percentages: 30 percent for freight traffic and 50 percent for passenger traffic. There is every indication that the volume will continue to rise in 1943 but that the rate of increase will not be as great as in 1942. Industrial production is expected to increase further, and troop movements will also increase in 1943. As the use of motor cars declines because of gasoline and rubber tire shortages, the difficulty of obtaining replacement parts, and the loss of workers to the military forces and to competing industries, additional freight and passenger traffic will be diverted to the railroads. The railroads are also certain to have to carry unaccustomed loads shifted from the water carriers, such as the oil shipments to the eastern States, the coal movements into New England, and grain movements from the head of the Great Lakes into the East. Balanced against these increases will be the decline of production and hence of transportation requirements for civilian goods. However, the net change will be an increase in traffic amounting to perhaps as much as 15 percent more in 1943 than in 1942. Agricultural traffic is expected to be somewhat larger on the average in 1943 than in 1942.

Many uncertainties are involved in making this prediction of the volume of traffic the railroads will have to carry in 1943. A zoning or certificate system which will deprive sellers of distant markets and cut down ton miles may be used. The production of civilian goods may be concentrated in such a way as to minimize the demands upon the transportation system. Production in the war plants may be rearranged with an eye to lessening the volume of traffic. Also, many goods have moved to their destination and need not be replaced in the future. This category includes capital goods, lend-lease materials, and building materials. Passenger car traffic may also level off in 1943. The armed forces will doubtless increase their personnel, but at the same time increasing numbers will be stationed abroad, thus offering no demand for rail service at home. Possibly aircraft will be used to carry an increasing number of passengers, especially Government officials and military personnel.

A tight car and locomotive situation

The prospects for moving all of this larger traffic in 1943 are not bright. Already the railroads are feeling the strain, although they have thus far successfully handled the great increase in traffic which has developed in the past 3 years. The number of cars and locomotives, however, has remained practically stationary, and there is very little likelihood that steel and other necessary materials can be made available for new construction. The carriers are even experiencing difficulty in securing sufficient materials to repair and maintain existing rolling stock and equipment. As cars and locomotives wear out and have to be retired from service, the odds are good that the total supply will be less in 1943 than in 1942.

While the car supply situation is tight, the locomotive outlook is even more unsatisfactory. 1/ The number of stored serviceable locomotives has already reached a record low level, and assistance from this source is not to be expected. A similar reduction in the number of unserviceable locomotives capable of repair has also occurred. As traffic rises toward the October peak this year, the small surplus of serviceable locomotives which existed in August will probably entirely disappear. The situation will become worse as peak traffic conditions are encountered in the fall of 1943.

A partial solution of the tight locomotive supply situation would be to use the existing motive power more efficiently. By loading cars and trains to capacity whenever possible and by routing traffic over the most direct lines, it would be possible to increase the number of tons hauled per locomotive mile. Steps should also be taken to increase the number of miles traveled each day by freight locomotives. Some railroads obtain much greater mileage per day from their locomotives than others do and this is only partly attributable to the nature of the traffic burden. One way to bring about better use of locomotives would be to redistribute the motive power (or traffic) among the several railroads. Another way would be to adopt on all railroads the operating practices of those railroads which excel in locomotive performance. Perhaps some redistribution of technical personnel would be helpful. A contribution has been made by the suspension of State laws limiting the length of freight trains.

The freight car supply seems adequate to handle the prospective volume of traffic this autumn. The greatest present tightness is in open-top cars, which are not important in the hauling of farm products. If difficulties in the movement of farm products should occur in the weeks immediately ahead, they will probably materialize because the burden of the citrus fruit traffic proves to be too great for the refrigerated car supply. The situation in 1943 will generally be less favorable than at this time, and agricultural traffic will have to share locomotives and cars (except highly specialized equipment) with other kinds of traffic.

If shortages should materialize in the period ahead in spite of all efforts to utilize cars and locomotives fully, shippers and travelers should be prepared for a system of priorities which might bar certain traffic from the railroads altogether. Where commodities can be shipped at off-peak periods instead of on-peak, this should be done to free equipment for more important traffic or for shipments that cannot be moved up or retarded because of perishability.

Motor transportation

In common with the railroads, the motor carriers have hauled a steadily increasing volume of freight and passenger traffic since the outbreak of war in 1939. Many trucks, perhaps a majority of them, are already operating at or beyond their rated capacities. Others could be operated more efficiently if they were properly loaded and coordinated among themselves and with the railroads. Yet the prospects for expansion in the volume of motor traffic are definitely not favorable. In fact, the chances are good that motor carriers will not be able to haul as much traffic in 1943 as in 1942. While tires, gasoline,

1/ The discussion of the locomotive situation which follows is based upon a report entitled: "Railroad Motive Power, Supply and Utilization," September 14, 1942, prepared by Ernest W. Williams, Jr., Economist, National Resources Planning Board.

and replacement parts will probably be made available to common-carrier trucks and busses, and also to contract carriers, providing they are carrying high priority traffic, strict rationing of tires and gasoline is certain to be applied on a nation-wide basis to private passenger cars, merchant trucks, and farm trucks. These private motor carriers have heretofore performed a major proportion of total motor transportation, not only in local or terminal areas but over the road as well.

As the situation tightens, the effects of shortages upon the volume of traffic will depend upon the answers to three questions: How much decline will occur in total motor capacity? How much of their former load will be diverted to the railroads? How much of their traffic will go out of existence? We can be sure that there will be some reduction of carrying capacity, some diversion of traffic to the railroads, and some destruction of traffic. But we cannot begin to estimate these reductions quantitatively until policies toward gasoline, tire, and equipment rationing are finally determined and applied.

Farm trucks in 1943

Farmers will have great difficulty next year in maintaining and operating their trucks (more than one million vehicles) at previous levels of efficiency. Farm trucks are generally older than commercial trucks and will be in greater need of parts, repairs, and tires. A considerable proportion of farm trucks may have to cease operation altogether by the end of 1943. This will throw an added burden on other farm trucks and on for-hire trucks, as well as on the railroads.

Under the circumstances, steps should be taken at once to coordinate the movement of agricultural products, particularly the movement of livestock and fresh fruits and vegetables. Cross-hauling of farm products should be minimized and the present excessive long-distance hauling of farm products by trucks should be greatly reduced. Some existing State laws regulating trucks will need to be suspended, and reciprocity privileges promoted. (It is reported that despite paper agreements between some States on these points, truck operators have been fined by local authorities for violations of these old regulations.) Cooperation of farmers using privately-owned trucks may have to be more actively promoted, possibly under Government supervision. Farm trucks returning from markets should bend every effort to secure return loads through pooling arrangements with other farmers or carriers. It may be necessary to accomplish this result by compelling farmers to lease their trucks on return trips. Even on farm-to-market trips, farm trucks may be pooled for use by all farmers in the community.

Rates and charges

Railroad revenues and profits have increased with the expansion of traffic, but the rate of growth and even total net earnings were threatened in 1941 by rising costs and particularly by the demands of the rail unions for drastic increases in wages. The demands were finally compromised late in 1941 at an estimated annual increase in cost of about 300 million dollars. The railroads immediately requested an increase of 10 percent in freight and passenger rates, but received 6 percent on industrial traffic and 3 percent on agricultural commodities. However, they were allowed the 10 percent increase in passenger rates, which together with the lesser freight rate advances, largely offset the added costs involved in the wage increases. In view of the recent price and wage stabilizing policy adopted by the Government, further significant increases in rail costs will probably not develop and horizontal percentage rate increases will not be necessary.

Motor carrier costs and rates have also risen in recent months. This trend may be arrested, unless increased working hours and overtime pay resulting from reduced highway speeds and general increases in rates of pay for trucking labor to keep it from going into war industries should become necessary. Truck operating costs are a very high proportion of their total costs and any set of economic conditions which increases such costs soon necessitates revisions of rates on most classes of traffic. In this respect, the motor carriers differ from the railroads, whose operating costs are a much smaller percentage of total costs than are the motor operating costs. The railroads are accordingly in a better position than the motor carriers to avoid or at least delay rate increases when their variable costs go up.

Refrigerator car supply in relation to requirements

The refrigerator car supply should be adequate to handle the prospective volume of traffic this fall and winter unless the proportion of perishable foods shipped fresh rather than processed, or the proportion shipped by rail instead of by truck, is materially increased. The decisions which will determine these "if's" have not yet been made, but the possibility is that there will be an acute shortage of refrigerator cars to handle a greatly augmented movement of citrus fruit and other perishable products formerly marketed in processed form.

The possibility of a refrigerator car shortage during 1943-44 is stronger. Even with maximum loading of cars and prompt loading and unloading, the refrigerator car system in 1942-43 is in a position to handle only the amount of increase in volume resulting from increased production of meats, potatoes, and citrus fruits. Considering the traffic already in view, any plans which would increase the burden on refrigerator cars and locomotives, such as the diversion of large volumes of fruits and vegetables from canned to fresh use, must be carefully laid if they are not to fail because of the shortage of refrigerated transportation facilities.

Livestock transportation

Transportation facilities for moving livestock to be marketed in the fall and winter of 1942-43 apparently will be adequate. But with livestock trucks wearing out, locomotive shortages promising to create a bottleneck in rail transportation, and even larger livestock marketing in 1943-44 than this winter, the situation next year will be acute.

The aggregate transportation load for livestock will be heaviest in October when cattle and sheep are to be moved from western ranges in relatively large numbers. The transportation load for livestock in October 1942 is estimated to be about 12 percent greater than in October 1941, and for the 3-month period from November to January, about 17 percent greater.

The trucks available for transporting livestock to market this fall and winter will be able to handle at least 20 percent more volume than they handled a year earlier according to estimates made by members of the Corn Belt Livestock Marketing Research Committee in a number of the Corn Belt States. This increase, it is assumed, will result from more efficient pick-up service and the loading of trucks more nearly to capacity, allowance being made for a reduction of 5 percent in the number of livestock trucks to be operated.

In general, the locomotive shortage is less acute in the livestock producing regions than in the industrial areas. The available rail stock cars if fully utilized can handle at least 18 percent more livestock in October, 52 percent more in November, 79 percent more in December, and 83 percent more in January than they handled in the corresponding months of 1941-42.

Even though transportation facilities for moving livestock are expected to be adequate this fall and winter, it is important that they be used as efficiently as possible in order to conserve trucks for next year. Livestock trucks can be conserved by any of the following methods: (1) Enforcing a more efficient pick-up service in the country so as to require less travel to complete loads; (2) minimizing cross-hauling; (3) using small trucks for assembling livestock from farms for delivery to appropriate points, where transfer is made to larger trucks or railroads for transportation to markets; (4) limiting pick-up service in a community to one or a few days per week; (5) establishing truck associations in communities where they can transport livestock more economically than private truckers; (6) avoiding unnecessary inter-market movements of livestock, and (7) insuring capacity loads for livestock trucks and return loads from market. If the transportation situation becomes critical, the zoning of territory may be necessary despite the difficulties involved.

THE OUTLOOK FOR MARKETING FACILITIES AND METHODS IN 1943

Livestock marketing

The past year gave rise to many difficult problems in livestock and meat marketing, with indications that they will continue in even more critical form in 1943.

Following the imposition of price ceilings on hog products in March, the spread between the value of hog products and the price of live hogs declined greatly. According to the series compiled by the Department of Agriculture, the spread at Chicago fell from a high of \$1.20 in the first week of March to a low of 27 cents in the week ended August 15. The large cut-out loss on hogs threatened to close some packinghouses.

This "squeeze" on hog packers resulted from extreme competition among packers for a supply of hogs limited in relation to domestic, military, and lend-lease requirements. There have been other periods in which such competition for short supplies prevailed, yet no such cut-out losses were experienced. The reasons for the recent difficulties evidently were closely related to the price ceilings on hog products. In times of reduced hog marketings, the packers ordinarily attempted to obtain enough hogs to satisfy their customers' requirements by bidding up the price of hogs. The price of meat would rise, producing a "squeeze" on many packers, but in the form of reduced volume of business and higher per-unit operating costs. With price ceilings on hog products, however, the squeeze took a different form: A rise in the price of hogs, with no corresponding rise of pork prices. It was made all the more severe by various inequalities in the competitive situation of the different groups of packers stemming from other war-time programs. The advantages enjoyed by some packer groups permitted them to pay prices for hogs which competing groups could not meet without prohibitive losses.

The situation was particularly severe for the smaller and eastern packers for several reasons: (1) The period (March) on which ceiling prices for pork were based was one in which the price differential on dressed pork between West

and East was seasonally narrow; (2) some of the national packers were said to have based their price ceilings on list prices not as representative of March selling prices as the ceiling prices of many of the smaller and eastern packers who claim to operate more nearly on a one-price basis; (3) the national packers were said to be able to shift sales to markets in which ceiling prices were highest; (4) not having as large inventory profits on products processed last winter as did some of the larger national packers, the smaller packers could not offset losses on their current slaughtering operations with profits on sales from inventory; (5) the larger federally-inspected packers generally had a bigger share of the relatively profitable lend-lease business, and by adding this to their regular domestic trade, were sometimes able to reduce per-unit cost of operation materially.

A closely related problem was the "meat shortage" which received much public attention during the summer. Actually, about a normal volume of meat for the season of the year was moving into domestic consuming channels. But the varying price ceilings on meats in the several markets caused the partial diversion of supplies from those with lower ceiling prices to those with higher ceilings, thus creating acute shortages in markets unfavorably situated in these and other respects. Moreover, the rise in consumer income generated by the war-time industrial activity caused consumers all over the country to demand larger than usual quantities of meat at the ceiling prices. Ordinarily, retail meat prices would have risen enough to offset the increase in income, thus "equating" the effective demand with the available supply. In the absence of these price adjustments, the supply of some kinds of meat in some areas was not sufficient to go around.

The new pork price ceilings which the Office of Price Administration has announced will be instituted this fall are designed to eliminate many of the inequities which contributed so greatly to the squeeze on certain groups of packers and to the regional pork shortages. In response to the demands of packers for action to eliminate the squeeze, the Office of Price Administration also has announced that it is considering the inauguration of ceiling prices on live animals.

Fundamentally, all these marketing problems stem from the fact that the demand for meats has increased faster than the supply of meats left available for civilian consumption after deducting lend-lease and military requirements. Because the large seasonal increase in meat supplies this winter will provide only temporary relief, the situation will become critical again. Best long-run solution to the problem would be rationing of meats for civilian consumption. Thereby the effective demand for meats would be brought into line with the supply available for civilians, thus reducing the pressure on distributors and packers. Meat supplies would then be distributed more equitably among all communities and families, and packers would not be compelled to bid up the price of hogs unduly in attempting to satisfy the requirements of their trade. Rationing also would make possible the orderly diversion of meats to military and lend-lease uses. But because rationing of meats is too complicated a process to be inaugurated immediately, the allocation of meat supplies to different groups of buyers will be used in the meantime to accomplish some of these objectives.

All of these developments have a direct bearing upon the outlook for live-stock and meat marketing in 1943. The prospects are that solutions will be found for most of the problems which have been outlined above. The big problem will then be one of handling the increased volume of livestock marketings so as to obtain maximum output of meats and other livestock products. With the production of livestock, particularly hogs, already at record levels, there has been some

question regarding the ability of processing facilities to handle the peak movement of hogs this winter. Available data indicate that there will be no over-all shortage of processing facilities in 1942-43. The critical element in the situation is not killing facilities, which are fully adequate, but chilling and storage facilities for meat. The margin of safety is not large in some areas, and it may be best to be prepared for an emergency in case it develops.

The following contingencies are to be guarded against: (1) Congestion at individual slaughter points or terminal markets, which would contribute to cross-hauling, marketing at undesirable weights, increased shrinkage and other inefficiencies, as well as to consumer dissatisfaction; (2) undue seasonal depression of hog prices arising from such congestion and from the fact that packers may be able to get all the hogs they need for efficient operation without paying a price fully commensurate with the over-all supply and demand situation; and (3) marketing of hogs at too light weights, which might occur as a result of producers' attempts to avoid certain price developments including a possible market penalty on heavy hogs later in the season.

One of the proposals designed to avoid these difficulties calls for: A permit system under which individual producers could market hogs only at a specific time for which a permit had been obtained either from commission firms operating at the public stockyards and packing plants buying direct, or from marketing committees working in the areas of production. Other proposals are for control of loadings in the country by livestock transportation agencies; purchases by a Government agency of live hogs at any point marked by serious congestion, for shipment to other points where there is excess capacity; and support of the price of hogs, particularly heavy hogs, preferably during a period following the heavy movement in December and January. This would encourage the holding of hogs for feeding to heavier weights, and discourage panicky marketing at unduly low prices in mid-winter.

Regardless of what is done to handle the peak movement in 1942-43, there will be an even heavier movement in 1943-44 if livestock production goals for next year are realized. Somemeans of insuring an orderly market movement may be necessary. One way to accomplish this would be to encourage a more even seasonal distribution of marketings by a rearrangement of breeding operations for the spring crop, by feeding schedules better adapted to marketing requirements, and by control of market price changes so as to insure producers against penalty for marketing their hogs at such time as will result in production of maximum quantities of pork and lard without congestion of marketing and transportation facilities.

Fats and oils

Many problems of transportation, processing and storage are expected to develop in the fats and oils situation, particularly with respect to oils crushed from vegetable oilseeds. We have long been net exporters of lard and net importers of vegetable oilseeds and vegetable oils. Until the comparatively recent development of the domestic soybean industry and the still later expansion of the crushing of peanuts for oil, cottonseed and some flaxseed were the only domestic oilseeds produced in sufficient quantities to be of any considerable commercial importance.

In consequence, the oilseed crushing plants are located principally on both coasts, in the cotton South, and in proximity to some large consuming centers, although some crushing capacity exists in the older soybean and flaxseed

producing regions. The increased production of soybeans required to offset the loss of imports of foreign oilseeds and the reduction in production of cottonseed has taken place mostly in regions not equipped to crush the beans locally. The shortage of critical materials has made it inadvisable to construct new mills located in the seed and bean producing regions when there is available crushing capacity elsewhere in the country.

The solution to the problem of crushing consists of moving the beans and seeds to the mills, or of moving the mills to the source of production. While technically feasible, the latter plan is practicable under war-time conditions only to the limited extent that additional presses or mills can be installed in existing plants.

Movement of the beans and seeds to places with available crushing capacity cannot be considered apart from the question of movement and storage of the finished products. Movement to the Pacific Coast should be confined to the amount of oil and meal that can be consumed locally, if the long haul back which wastes both money and transportation facilities is to be avoided. The same objection applies to movement into the South, but with less force because the distances involved are shorter. If movement is to the South, advantage should be taken of the Federal barge lines on the Mississippi system. Traffic on these lines is now running about 87 percent northbound and only 13 percent southbound.

If beans or seeds are moved to a plant which has crushing facilities only, the problem arises of providing tank cars for movement of the crude oil to points of further processing. Since tank cars are scarcest relative to needs of any type of railroad car, prudent use of our resources would indicate that crushing be done either in or near plants manufacturing shortening and margarine, which can be transported North and East in refrigerator cars or in boxcars if the products are sufficiently hydrogenated.

Storage must be considered from several angles, particularly as W.P. B. order No. M-71 (September 22, 1942) limiting the use of fats and oils by manufacturers contemplates the building-up of a stock pile for future needs. Tank storage is limited. And construction of new tanks at strategic points is practically out of the question in that it involves the use of considerable amounts of steel plates.

This raises the question of the keeping qualities of the various oilseeds at various stages in their processing. Cottonseed is most perishable as seed, will keep only reasonably well as crude oil, and will keep indefinitely as refined oil or in finished products. Soybeans will keep indefinitely at 13 percent moisture content, and can stand occasional moisture up to 18 percent without going out of condition. As oil, soybeans keep better in the crude than in the refined state. Peanuts in their raw state will keep well under any ordinary conditions of storage. The oil keeps best in the refined state.

These considerations may lead to the conclusion that cottonseed should be crushed first, and that soybeans should be stored as beans in the North Central region to the extent that storage capacity is available on farms or in elevators. Peanuts, being already located in the South, can be crushed as desired.

There is every reason to believe that the many problems involved in the handling of oil crops can be solved without undue use of critical materials and transportation facilities if the whole movement is carefully planned.

Changes in fruit and vegetable marketing

War is bringing important changes in the marketing of fruits and vegetables, with the prospective impact greatest in 1943 when the major adjustments will have to be made.

Chief among the conditions necessitating these adjustments is the shortage of materials for making cans, which threatens to reduce greatly the volume of fruits and vegetables to be canned in 1943. In addition, military and lend-lease requirements for canned goods will absorb a large part of the available supply of some canned products, as well as of dried fruits. Canned production normally constitutes about 16 percent of total production of fruits and 33 percent of vegetables. This percentage varies greatly for different items, and severe curtailment of canning would necessarily revolutionize the marketing of some commodities. Because of lack of facilities for marketing their products, some producers may find that their entire market has disappeared. Many middlemen handling these products will face drastic readjustments of their operation. Consumers will have to be supplied in other ways with the vitamins and other food elements ordinarily obtained from canned fruits and vegetables.

Two things can be done to make up for the shortage of canned fruits and vegetables: (1) increased reliance can be placed on other forms of processing, principally packing in glass and freezing; (2) a larger proportion of total production may be marketed fresh. Increased production of dehydrated fruits and vegetables will go almost entirely into non-civilian uses.

According to present indications, only a relatively small part of the total production of fruits and vegetables formerly canned will be put up in glass, due to the short supplies of rubber allocated to the glass container industry for capping the glass jars. Efforts to find a plastic substitute for rubber for this purpose thus far have been unsuccessful. And, despite large percentage increases in recent years, the total volume of fruits and vegetables processed by freezing is relatively small. Due to limitations of critical materials, the processing and distributing facilities for handling frozen fruits and vegetables in orthodox ways probably cannot be expanded much further during the war. An alternative is to use the facilities of the ice cream industry, formerly only partly utilized during the winter season, for distributing frozen fruits and vegetables. Research is now being conducted to determine the extent to which such a shift might be made.

Any very large increase in the volume of marketings of fresh fruits and vegetables would depend on the following conditions: (1) the adequacy of rail and truck transportation facilities to handle the movement from producing to consuming areas; (2) the extent to which production might be shifted from areas distant from markets to nearby sections; (3) the availability of adequate cold storage facilities; and (4) the ability of distributing facilities in consuming markets to handle the increased volume, particularly the dispersion from larger markets to small towns and cities which in the past have depended more upon locally grown products in season and upon canned goods at other times of the year. This problem is made more difficult by the restrictions on truck transportation facilities which serve these smaller markets.

Thus far price controls have barely touched fresh fruits and vegetables. The problem is much more complicated than it is for most other commodities, because of the wide variety of products and qualities, the element of perishability and the extremely seasonal nature of production and consumption. Price ceilings on fresh fruits and vegetables would necessarily affect methods of marketing in many important ways. They might necessitate extensive rearrangements of selling

territories, and would certainly bring important changes in sales and traffic movement and in the character of operations of fruit and vegetable handlers everywhere.

Other commodities

Although wartime changes in marketing methods will be less radical for most other commodities than for those discussed above, many minor adjustments will have to be made in 1943.

In the effort to conserve space in shipments for lend-lease and military purposes, a greatly increased percentage of total egg production now is being dried. Egg drying plants now in operation have a capacity of about 315 million pounds per year based on 300 days operation of 20 to 22 hours per day. The prospects are that roughly a third more eggs will be dried next year, as materials have been allocated for expanding drying facilities by another 110 million pounds. Egg marketings in the coming year will increase in most States. Further material increases are likely in the Southern States where marketing facilities were over-taxed last spring. This may necessitate continuation or expansion of special marketing programs in that area.

Sales of chickens by farmers in the United States for 1942 as a whole will be 16 to 18 percent larger than in 1941. Since farm marketings during the summer were smaller than last year, much of the increased supply will be marketed in the last quarter. In the midwest, where marketings for the year will be more than 25 percent larger than last year, receipts of live poultry at primary markets have been averaging more than 50 percent larger than last year. In some sections of this region, packing facilities may be overtaxed this fall and next year, particularly if marketings should be concentrated unduly. This presents two problems: (1) avoiding undue price declines because of temporary market gluts; and (2) promoting more efficient use of marketing facilities by spreading marketings more evenly.

The principal programs in connection with dairy products center around the need for obtaining greater production of dried milk, cheese, butter, and fluid milk in defense areas. The big problems are how to obtain the requisite total volume of milk production, and how to divert this production in the proper proportions to the various processed dairy products. The latter problem involves considerations of price supports and other possible subsidies, price ceilings and possible rationing of dairy products, and other controls designed to make the total supply go around. One possible solution would be to require a small reduction in the butterfat content of ice cream and fluid milk, and prohibit the sale of certain products such as whipping cream, thereby diverting butterfat into butter and releasing enough of the total milk production for the required additional production of other dairy products. This would involve widespread adjustments by dairy marketing organizations.

In the hard red winter wheat area, wheat and other small grains have found storage in terminal and country elevators and on farms. At the present time very little wheat still remains on the ground for lack of storage space as was the case during July and August. In the spring wheat area, producers have used great ingenuity in making space available on farms to care for this year's crop. However, producers in this area have been handicapped some by excessive rains and more recently by snow that has fallen since crops were ready for harvest. As a result, much grain still remains in the fields. While it is expected that farmers again this year will plant within the wheat acreage allot-

ment, soil and moisture conditions are very good. Because this will probably result in another better than average yield in 1943 and because there is an all-time record carryover, the outlook is for a storage problem by the middle of 1943 even more severe than that of this year.

Emergency food distribution

The possibility of air attacks on our large coastal cities gives rise to questions about emergency food distribution facilities. Extensive plans have been made in some cities for the care and feeding of the population in the event of disaster, but the plans in general have gone only to the point of requisitioning supplies from the usual sources. It is important to note that these sources would be greatly disrupted in case of emergency by military uses of transportation routes, and possibly by the destruction of regular marketing facilities.

THE OUTLOOK FOR MARKETING MARGINS AND COSTS FOR FARM PRODUCTS

Developments into 1942

From 1937 through 1941, marketing charges for a family food basket declined from 193 dollars to 178 dollars. No trend was apparent throughout 1941. During the first 6 months of 1942, the margin rose to 194 dollars in June, but has since declined to 186 in August, and 189 in September. The September margin was about 1 percent below the pre-war (1935-39) average, whereas the cost of foods to consumers was up 22 percent and payments to farmers for equivalent quantities of farm products were up 53 percent. Considering the pre-war level of margins and prices and the higher general level of prices now prevailing, it appears that a normal level for the current food marketing margin would be about 205 dollars, instead of 189 dollars.

The shrinkage in charges for marketing food products during the past several years has taken place in the face of sharply increased hourly earnings of labor, indicating advances in the efficiency of labor use greater than in wage rates.

One factor responsible for this increased efficiency has been the tremendous growth of super-markets, one of the most efficient forms of retailing. Another factor may have been the prevalence of subnormal returns to agencies engaged in food marketing. Still another factor may have been the influence of large military and lend-lease requirements for foods, which have added to the volume of business of food handling establishments below the retail and wholesale levels, thereby lowering per-unit costs of operation. Parts of the marketing system which long have suffered from excess capacity have been operated at much higher rates of output because of these war-induced increases in business and the record high production of many farm products.

Total charges for marketing cotton products from the producer to the city consumer rose very little from the beginning of the war into 1941. They have since advanced in line with the higher prices of cotton products at retail. In August this year, marketing charges for a group of 42 items of cotton clothing and household textiles purchased by a typical family amounted to 28 dollars. This was 31 percent above the pre-war (1935-39) average of 22 dollars. Compared to pre-war levels, costs of cotton items to consumers at retail were up 35 per-

cent, whereas payments to farmers for lint cotton were up 82 percent. The rise in cotton margins in 1941 and in the first part of 1942 reflected a bulge in mill margins early in 1941 when productive capacity began to be taxed, and a later increase in margins taken by other agencies between producer and consumer. The latter reflected the gradual elimination of inventory profits which had permitted agencies beyond the mills to continue operating for some time without raising prices for new goods in line with replacement costs. An analysis of cost factors in relation to mill margins indicates that mill costs now have risen in line with the preceding rise in mill margins.

Mill margins for processing a representative list of wool worsted piece goods did not rise as rapidly throughout 1941 as mill margins for cotton products. Such margins in October 1941 were at levels equal to those prevailing during the first quarter of 1938. Margins rose sharply to April 1942, however, and like cotton mill margins, appeared abnormally high in relation to price levels.

Labor costs make up between a third and a half of total costs of marketing farm products. Over a period of several years labor efficiency has advanced more rapidly than hourly earnings of labor so that labor costs per unit of product have declined. There is evidence that this trend has been retarded and in some cases reversed during the past year, due largely to the loss of skilled and efficient labor to war industries and the military forces. The War Labor Board recently announced a policy of approving increases in basic wage rates equivalent to the rise in cost of living above the level of January 1941. Hourly earnings in transportation, wholesaling, and retailing have lagged behind the rise in cost of living over January 1941, although increases in hourly earnings in processing industries have exceeded the rise in cost of living. In food marketing as a whole, wage rates probably would have to advance about 3 percent to equal the rise in the cost of living over January 1941. This would amount to an increase of from 1 to 2 percent in food marketing costs.

The outlook for 1942-43

An appreciable increase in marketing margins for food products has occurred in the last few months. Although this may have been partly seasonal in character, there are indications that this trend may continue at least into the first part of 1943. Among the factors pointing in this direction are: (1) the possibility that many super-markets may be forced out of business or have their volume reduced because of the automobile situation; (2) the fact that wage rates in food marketing have not advanced as fast as in manufacturing industries, with further rises likely to occur; (3) the prospect that margins on livestock products will increase when supply is increased next fall, reducing the upward pressure on live animal prices in relation to meat prices; (4) the possibility that if military and lend-lease requirements increase, the volume of foods flowing through wholesale and retail channels may decline somewhat, thus raising per unit costs and margins; and (5) a possible reversal in the apparent upward trend in physical output per man hour in marketing, because of the loss of relatively skilled personnel to war industries.

A number of these adjustments should have taken place by the early part of 1943, and unless an inflationary spiral of costs and prices gets under way, it is probable that in late 1943 margins will rise less rapidly than during the next 6 months.

Farmers receive most of increase in consumer's expenditures for foods

Charges for marketing farm food products have not increased appreciably during the entire war period and in comparison with the pre-war 1935-39 average, while food costs to consumers and payments to farmers for food products have risen sharply. In September 1942, the retail cost to consumers of a basket of foods produced on American farms in quantities representing annual family purchases amounted to \$405. This cost to consumers was \$73 greater than an average cost of the same foods in the pre-war period from 1935-39. The marketing margin at \$189 in September was \$2 below the pre-war level. Payments to farmers for equivalent farm food products were \$216 in September 1942, \$75 higher than comparable payments averaged over 1935-39. Charges for marketing farm food products had been declining since 1937 and continued the decline after the European war began into 1941. Not until recent months has any appreciable upward trend been evident.

The farmer's share of the consumer's food dollar rose to 51 cents by September 1941, and has fluctuated between 50 and 52 cents from that date until July 1942. In September 1942 the farmer's share was 53 cents dropping from 54 cents in August, while his pre-war share was 42 cents. These appear to be the highest shares going to the farmers since 1920. During World War I, the farmer's share rose to 60 cents in 1917 and was running at 52 cents and above throughout the 8 years from 1913 to 1920. Consumer's food costs at \$405 in September 1942 were \$10 or 2 percent lower than in the year 1929. Payments to farmers were 10 percent higher than the \$195 for 1929, while the marketing margin was 14 percent lower. Retail costs of foods would have to rise by \$109 or 27 percent above the September 1942 level in order to equal the cost for the year 1920, while payments to farmers would have to rise \$56 (26 percent) and the marketing margin by \$53 (26 percent) to reach 1920 levels.

Foods taking smaller portion of rising family incomes

Working men's families can buy a basket of specified food products for the smallest share of family income on record since 1913. Average family income has been rising more rapidly than food prices during the last three years and through the first 9 months of 1942, due to higher wage rates, more hours work per week with over-time payments, and more persons employed. Estimates of the annual rate of average family income for families averaging 4.9 persons reached a level of \$2380 for September 1942. This represented a rise of 57 percent over the pre-war average for 1935-39, while the cost of a typical food basket was up 26 percent and the cost of a basket of foods produced on American farms was up 31 percent. The cost of a basket of all foods averaged over the 5 years preceding 1940 accounted for 27 percent of family income, but required only 22 percent in September 1942. These foods in the family food basket which are produced on American farms accounted for 22 percent of the family income in the pre-war average period, dropping to 17 percent for September 1942.

Results of a special survey released by the U. S. Bureau of Labor Statistics about August 1, 1942 showed that for the first three months of 1942, the average annual rate of income was \$2,317 for families of 2 or more persons living in cities, an increase of $6\frac{1}{2}$ percent over the 1941 average. A similar comparison for single persons shows an income increase amounting to more than 12 percent. According to this survey, estimates for city families and single persons combined showed 23 percent of expenditures, or 25 percent of income, being spent for food in 1941. The rate of savings increased sharply from 1941

into early 1942 -- from 7.2 percent to 11.3 percent of family income. For the first 3 months of 1942, food took $27\frac{1}{2}$ percent of total expenditures, about 23 percent of income. In 1941 clothing took 10.5 percent of total expenditure, dropping to 10.1 percent for the first quarter of 1942.

While the results of the survey made by the Bureau of Labor Statistics show the percentage of income actually spent for foods in 1941 and 1942, the series of costs of all foods and cost of 58 foods prepared in the Bureau of Agricultural Economics for comparison with estimated family income merely reflect changes in cost of a fixed basket of foods due to changing prices and do not allow for any variation in quantities of foods purchased. There is evidence that per capita quantities of foods consumed are somewhat higher than they were during the year 1918 to which the "food basket" quantities apply.

Charges for marketing food products will probably rise

Marketing charges on domestic farm food products have remained at abnormally low levels throughout most of the war period and particularly during the last 12 months of rapid increases in food prices. A part of this is due to a continuation of the downward trend beginning in 1937, with marketing charges for a family food basket dropping from \$1.93 in that year to \$1.78 in 1941. During 1941 the marketing margin fluctuated around average, and no definite trend was apparent. A slight upward trend in margins has occurred during the first 6 months of 1942, followed by a decline during July and August, and a rise into September. The decline in margins over a period of several years has taken place in spite of sharp increases in hourly earnings of labor, sharply accelerated during the last year and a half. The lowering of marketing charges associated with a rise in hourly payments to labor implies that an offsetting increase in labor efficiency has occurred, but there are indications that labor efficiency as measured by per-hour output is no longer increasing so rapidly and in some instances is declining. This means higher labor cost per unit of product and higher costs in marketing the family food basket.

Compared with the pre-war 1935-39 average, retail food costs in September 1942 are up 22 percent, payments to farmers are up 53 percent, and the margin is down 1 percent for September 1942. If the marketing margin had risen in normal relation to the increase in level of retail food prices, it would have amounted to about \$2.05 in September 1942, more than 8 percent higher than the margin of \$1.89 actually observed.

It is believed that a significant factor contributing to the decline in marketing charges on foods occurring from 1937 through 1941 was the development of the supermarket. The supermarket with its high rate of turn-over, self-service, and large average sale has reduced labor requirements and inventory costs in food retailing. Supermarkets handle a substantial share of retail food sales and their competitive influence is felt throughout the field of food retailing. It is believed that increasing difficulty in local transportation and the decline in use of automobiles will probably lessen the importance of supermarkets, particularly in rural areas, with a consequent rise in per-unit marketing charges.

Marketing charges for cotton products are normal for current price levels.

During the first 8 months of 1942, payments to cotton farmers averaged $12\frac{1}{2}$ cents out of the dollar spent by consumers for a representative list of cotton clothing and household furnishing items. For the 16 years of record since 1927, the farmer's share has exceeded 12 cents only in 1928 and 1929 when the shares were 13.2 cents and 12.6 cents respectively. The farmer's share of

the consumer's dollar spent for cotton products reached a low of 4.9 cents in 1932, and averaged 9.3 cents over the pre-war years 1935-39. Charges for marketing services between cotton farmers and city consumers have absorbed from 86 cents to 95 cents of the retail dollar spent for cotton products through the years since 1927. These figures contrast with the shares going to the marketing system and to the farmer in the case of food products where the division is roughly 50 - 50.

Cost to consumers for quantities of cotton clothing and household furnishing items purchased annually per family amounted to \$32.25 in August 1942, an advance of about 35 percent over the pre-war 1935-39 average. Estimated payments to farmers for the quantities and qualities of cotton required to process these items amounted to \$4.04 in August 1942, 82 percent above the 1935-39 average. Total charges for marketing this list of goods from farmer to consumer was \$28.19 in August 1942, 30 percent higher than the pre-war average.

Consumer's cost of cotton articles in August 1942 represented an increase of \$8.37 over the 1935-39 pre-war level. Higher prices paid to farmers for lint cotton accounted for \$1.82 of this increase, while the balance, amounting to \$6.55 was made up of higher charges taken by the marketing system for its service.

Both the retail cost of cotton articles to consumers and the marketing margin for the last several months exceeded the highest previous levels on record, which occurred in 1927 when retail cost was \$31.82 and the margin was \$28.13. Retail cost to consumers also reached a peak in April, and have since declined about 1 percent, due to effects of the General Maximum Price Regulation.

Total charges for marketing cotton products between farmer and consumer during the first 6 months of 1942 appear to be near normal in relation to the current level of prices and to the historical level of margins in relation to prices. However, an important component of the over-all farm-to-retail margin, made up by mill margins covering spinning and weaving operations, rose to record high levels early in 1941, and contributed materially to the disparity between marketing charges for cotton products and those for food products, where the latter are at levels abnormally low in relation to prices.

Cotton mill margins at record highs

Early in 1941 combined demands for cotton products for civilian, military, and export purposes exceeded normal capacity of mills performing spinning and weaving functions. The margin charged by mills rose sharply from 15.0 cents in January 1941 to 19.8 cents in April of the same year. This corresponded to an advance in prices charged for unfinished grey cloth from 25.2 cents to 31.0 cents per pound of lint cotton content, while the wholesale price paid for cotton rose from 10.2 cents to 11.2 cents. The Office of Price Administration imposed a ceiling on mill margins early in 1941 permitting the sales prices of yarns and cloth to rise in fixed ratios to higher prices paid for lint cotton. The margin reached 20.5 in October 1941. The ceiling on margins was removed in late April 1942, and maximum prices on yarn and cloth constructions were imposed in the belief that the mill margins could narrow and return higher prices for lint cotton to the farmer and to sellers in wholesale markets. Mill margins widened immediately, rising from 20.3 in April to 21.8 in June and 22.0 in September.

When the Office of Price Administration shifted from control of margins to control of wholesale prices of products, the farm price of cotton was about 2 cents below the maximum price exemption level specified in Section 3-a of the Emergency Price Control Act of 1942. It was felt that agencies in the marketing system, particularly spinning and weaving mills, were taking margins so far in

excess of normal that they could afford to pay farmers the full exemption level for their cotton. However, by June and July farm prices were about 3 cents below exemption levels.

An analysis of the cotton mill margins made in terms of selected cost factors indicates that margins were far in excess of normal levels justified on the basis of costs during most of 1941, at the time the Office of Price Administration imposed ceilings upon margins at inflated levels. However, by April 1942 cost factors had risen to such an extent that the prevailing mill margin appeared justified. Mill margins were analyzed in relation to (1) per unit labor costs, (2) the level of wholesale cost of lint cotton, and (3) the rate of capacity utilization as measured by the level of spindle activity.

Outlook for cotton marketing margins

The status of marketing charges on cotton products presents a sharp contrast to the status of marketing margins for foods. Apparently wholesaling and retailing of cotton products has not benefited from the changes in the institutional structure of the marketing system such as has occurred in the distribution of food products. This indicates a possibility that the distributive margins on cotton products could be narrowed under improved methods, particularly in retailing. There seems to be little hope for the narrowing of the mill margin in view of the current and prospective high rate of operation, high price levels, and increased labor cost. The total farm-to-retail marketing margin is now equal to or above levels which appear normal in relation to price, and there seems to be little reason for further widening of these margins, particularly if retail prices and rates are stabilized near current levels.

Charges for marketing and processing cottonseed are near average

The spread between the price paid farmers per ton of cottonseed and the sales value of products of cottonseed crushing mills averaged \$17.39 for the 1941-42 season beginning in August. In August 1941, when crushings by mills were relatively light, the margin was \$24.11 per ton, dropping to \$14.71 by November and averaging about \$18 during the first six months of 1942. By July when crushing had again dropped to a low level, the estimated margin rose to \$19.68. The farm to mill-sales price spread covers charges for local assembly of seed, for transportation to mills, and for crushing.

Of the \$24.83 by which the mills sales value of products for 1941-42 exceeds the 1935-39 pre-war average, \$22.36 was passed back to farmers in the form of a higher price for cottonseed, while marketing charges represented in the price spread increased \$2.47.

Table 2.- Average value of cottonseed products per ton of seed crushed, percentage of value attributed to each of the four products; farm value of cottonseed, and margin between farm price and product values for selected years and months

Year beginning August	: Value of :	:	:	: Farm :	: Percentage of product			
	: products :	: Farm :	:	: price as :	: value attributed to -			
	: per ton :	: price :	: Actual :	: percent-:	:	:	:	:
	: of :	: per :	: margin :	: age of :	: Crude :	: Cake :	:	: Lint-
	: seed :	: ton :	:	: product :	: oil :	: and :	: Hulls:	: ers
	: 1/ :	: 2/ :	:	: value :	:	: meal :	:	:
	: Dollars	Dollars	Dollars	Percent	Percent	Percent	Percent	Percent
1935-39 average	40.21	25.29	14.92	62.9	55.4	29.2	4.6	10.8
1940	37.80	21.72	16.08	57.5	46.6	31.6	5.3	16.5
1941	65.04	47.65	17.39	73.3	58.2	25.9	3.0	12.9
1941 - Aug.	58.96	34.85	24.11	59.1	57.4	26.0	3.4	13.2
Oct.	64.08	47.60	16.48	74.3	58.9	25.3	2.8	13.0
Dec.	64.96	48.37	16.59	74.5	57.3	26.7	3.0	13.0
1942 - Apr.	65.64	48.09	17.55	73.3	59.7	24.2	3.2	12.9
May	65.28	47.49	17.79	72.7	60.4	23.7	2.9	13.0
June	65.48	46.26	19.22	70.6	60.4	23.6	3.0	13.0
July.	66.08	46.40	19.68	70.2	59.9	24.1	3.2	12.8
Aug. 3/...	65.63	43.94	21.69	67.0	60.3	24.2	3.2	12.3
Sept. 3/...	65.56	44.75	20.81	68.3	60.3	24.5	2.8	12.3
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:

- 1/ Mill product prices on the basis of values reported for each season by the U. S. Bureau of the Census, interpolated/and extrapolated by monthly wholesale market prices of the products.
- 2/ The monthly farm price is a weighted average of monthly prices received by farmers including several earlier months of farm sale to represent actual payment to farmers for seed crushed each month.
- 3/ Preliminary data.

Labor costs in marketing may increase

The War Labor Board recently announced its policy to approve increases in basic hourly wage rates to match increases in the cost of living over the level of January 1941. Wage changes henceforth will depend upon policies of the newly created Office of Economic Stabilization administered through the War Labor Board. By mid-August 1942 the cost of living of city families had risen about 17 percent over the levels for January 1941. Over the same period, the hourly earnings of all nonagricultural wage workers rose about 19 percent. This average for all nonagricultural workers is heavily weighted by workers in manufacturing industries whose earnings have risen most sharply. In many nonagricultural occupations, hourly earnings have not risen so much as 15 percent. Furthermore, the policy of the War Labor Board applies to basic hourly wage rates which have not increased to the same extent as have hourly earnings, due to inflation of the latter by higher rates of payment for overtime.

Fragmentary data indicate that from January 1941 to July 1942, the rise in hourly earnings exceeded the rise in basic wage rates by at least 2 percent in cotton processing, by something more than 1 percent for food processing, and by less than 1 percent in all food marketing. The hourly earning in cotton processing rose about 27 percent from January 1941 to July 1942, and it appears that the rise in basic rates far exceeds the rise in cost of living.

Despite the large increase in wages granted to railway employees in December of last year, the rise in hourly earnings of employees of Class I Steam Railways from January 1941 to July 1942 amounted to only 10 percent and basic wage rates have increased even less. In both wholesaling and retailing, hourly earnings have not kept pace with the advance in cost of living. For food marketing as a whole, the rise of hourly earnings over January 1941 was about 12 percent. This suggests that for hourly earnings in food marketing, a further increase of from 3 percent to 5 percent is possible under administration of the stated policy of the War Labor Board. Hourly earnings for marketing cotton products may show some further increase due to higher wage payments in transportation, wholesaling and retailing enterprises.

Retarde labor efficiency contributes to higher unit labor costs

Until 1941 increases in labor efficiency as measured by physical output per man hour had generally exceeded the increases in wage payments per man hour, with a resulting decline in per-unit labor cost. The increased demands upon the national labor force beginning early in 1941, together with the necessity for replacing skilled workers moving to better paid jobs with untrained workers, led to a lowered rate of improvement in labor efficiency and even to a decline in many cases. This development, in conjunction with rapidly rising hourly earnings of labor, has brought about substantial increases in labor cost per unit of output for many enterprises. To the extent that the shift of labor from civilian into war industry continues, a further lowering of labor efficiency may be expected for the rest of 1942.

Higher marketing costs due to lend-lease and military purchases

Total volumes of food and fibre products of American farms moving through marketing channels are at record high levels. A large part of these volumes are diverted from the normal marketing flow by Government purchase for military requirements and for lend-lease shipments. Government purchase usually occurs at the processing plant or in the raw material market. None of the volume purchased by the Government passes through retail markets, and little of it passes through the hands of wholesalers. It appears that the volume of farm

products moving into civilian consumption will soon begin to decline, but that the volume taken by Government purchase will continue to increase. In the early stages of marketing --- in local assembly, storage, transportation and processing --- the total volume of farm products must be handled including goods for civilian, military and lend-lease uses. This would utilize fully the capacity in enterprises performing these functions, and permit efficient operation and relatively low costs. On the other hand, the reduced volumes of goods for civilian consumption passing through retail markets and certain segments of wholesale markets will accentuate the state of excess capacity which already exists in these enterprises, particularly in food retailing. This last development would lead to higher cost in retailing and wholesaling of farm products.

FARM-RETAIL PRICE SPREADS: MONTHLY SUMMARY, SEPTEMBER 1942

The farmer's share of the consumer's food dollar dropped from 54 cents in August to 53 cents in September. Shares for both months were record highs since 1920. The farmer's share has been 50 cents or more for each month since September 1941.

Charges for marketing a family basket of foods from American farms to city consumers rose nearly 2 percent from August to September, but remained below the 1935-39 level. This resulted entirely from a 1 percent rise in retail food costs while payments to farmers for equivalent produce did not change over the month.

Temporary maximum price ceilings have been placed upon most important food products not heretofore subject to control excepting ^{most} fresh fruits and vegetables. The Office of Price Administration has defined temporary ceilings in terms of dealers' prices during the 5 days, September 28 through October 2, and will replace these with permanent maximum prices by November 5.

The Bureau of Labor Statistics reports mid-September food prices 0.4 percent above mid-August. Prices of foods not limited by the Office of Price Administration rose less on the average from August to September than did prices of controlled items due chiefly to seasonal declines for fresh fruits and vegetables. The advances in retail food prices from May to September were more general and much more pronounced for items not subject to price controlled items; although September prices of several seasonal fruits and vegetables were below May levels.

Margins of cotton mills covering charges for spinning and weaving operations are at record high levels, exceeding 22 cents per pound of lint cotton during August and September.

Prices in wholesale markets during the last 2 weeks of September advanced slightly for unprocessed farm products and foods, declined for hide and leather products, and remained unchanged for textile products.

Table 3 .- Annual family purchases of 58 foods ^{1/}

Year and month	Cost at retail	Paid to farmers	Marketing margin	Farmer's share of retail value
	Dollars	Dollars	Dollars	Percent
1913-15 (average)	256	135	121	53
1920	514	272	242	53
1929	415	195	220	47
1935-39 (average)	332	141	191	42
1940	314	132	182	42
1941	342	164	178	48
1941 - Aug.	348	172	176	49
Sept.	357	181	176	51
Oct.	361	180	181	50
Nov.	365	182	183	50
Dec.	366	189	177	52
1942 - Jan.	378	194	184	51
Feb.	381	195	186	51
Mar.	384	196	186	51
Apr.	386	201	185	52
May	392	202	190	52
June	398	204	194	51
July	401	209	192	52
Aug.	402	216	186	54

^{1/} Important food products produced by American farmers combined in quantities representing annual purchase by a typical workingman's family.

Retail price averages for 51 cities from U. S. Bureau of Labor Statistics

Table 4 .- Nonfarm family income and cost of family food purchases for selected periods ^{1/}

Year and month	Family income 2/	Retail cost of all foods	Retail cost of 58 foods	Food cost as percentage of income
	Dollars	Dollars	Dollars	Percent
1920	1,857	688	514	37
1929	1,979	540	415	27
1933	1,105	343	264	31
1935-39 average:	1,506	408	332	27
1941	1,956	430	342	22
1942-June:	2,313	502	398	22
July:	2,342	508	401	22
Aug.:	2,366	514	402	22

^{1/} For sources of material used in this table see "Farm-Retail Price Spreads, December 1941, p.5" (Note at foot of table.)

^{2/} New series.

Table 5 .- Price spreads between the farmer and the consumer
- food products, September 1942

Retail commodity	Table No.	Unit	Retail		Farm equivalent		Farm	
			Price	Quantity	Value	Actual margin	value as percentage of retail price	
			Cents		Cents	Cents	Percent	
Pork products	11	1 lb. prin	29.9	1.90 lb. live hog	25.8	4.1	86	
Dairy products	12	100 lb. milk	413.6	100 lb. milk equivalent	2/214.2	199.4	52	
Hens	13	1 lb.	42.5	1.11 lb.	22.5	20.0	53	
Eggs	14	1 doz.	55.2	1 doz.	34.7	20.5	63	
White flour	15	1 lb.	5.4	1.41 lb. wheat	2.4	3.0	44	
White bread	16	1 lb.	8.6	.97 lb. wheat	1.7	6.9	20	
Corn meal	17	1 lb.	5.0	1.5 lb. corn	2.2	2.8	44	
Rolled oats	18	1 lb.	8.7	1.78 lb. oats	2.4	6.3	28	
Corn flakes	19	8-oz. pkg.	7.0	1.275 lb. corn	1.9	5.1	27	
Wheat cereal	20	28-oz. pkg.	23.9	2.065 lb. wheat	3.5	20.4	15	
Rice	21	1 lb.	12.5	1.51 lb. rough rice	5.2	7.3	42	
Navy beans	22	1 lb.	9.1	1 lb. dry beans	4.8	4.3	53	
Oranges	24	1 doz.	39.1	1/17 box	12.9	26.2	33	
Potatoes	25	1 lb.	3.2	1 lb.	1.8	1.4	56	
Apples	35	1 lb.	6.2	1 lb.	2.5	3.7	40	
Lamb products	37	1 lb. prin.	35.4	2.16 lb. live lamb	25.7	9.7	73	
Sweet potatoes	38	1 lb.	6.4	1 lb.	2.2	4.2	34	
Rye bread	39	1 lb.	9.2	.39 lb. rye & .64 lb. wheat	1.5	7.7	16	
Whole wh. bread	40	1 lb.	9.9	.92 lb. wheat	1.6	8.3	16	
Macaroni	41	1 lb.	14.1	1.72 lb. durum wheat	2.7	11.4	19	
Soda crackers	42	1 lb.	16.6	1.085 lb. wheat	1.9	14.7	11	
Peanut butter	44	1 lb.	27.8	1.73 lb. peanuts	9.8	18.0	35	
58 foods combined	8	Annual family consumption	\$405.	Annual family consumption	\$216.	\$189.	53	

1/ Table numbers refer to numbering in original 1936 report and annual supplements entitled "Price Spreads Between the Farmer and the Consumer".

2/ Preliminary.

Retail prices from the United States Bureau of Labor Statistics.

Table 6.-Price spreads between the farmer and the consumer - food products, retail price and farm value

Commodity	Retail unit	Retail price			Percentage to			Farm value			Percentage to		
		: 1935-39:			: 1942 from:			: 1935-39:			: 1942 from:		
		Sept	Aug.	Sept	Sept	Aug.	Farm equivalent	1941	1942	1941	1942	1941	1942
		Cents	Cents	Cents	Cents	Percent		Cents	Cents	Percent	Cents	Percent	Percent
Pork products	1 lb. prin. pork	25.3	26.9	28.6	29.9	+ 11	1.90 lb. live hog	15.7	21.4	26.8	25.8	+ 21	- 4
Dairy products	100 lb. milk equiv.	324.0	381.9	407.2	413.6	+ 8	100 lb. milk equiv.	146.0	192.5	205.2	214.2	+ 11	+ 4
Hene	1 lb.	31.7	32.9	42.0	42.5	+ 29	1.11 lb.	16.5	18.1	21.8	22.5	+ 24	+ 3
Eggs	1 doz.	36.0	46.9	51.7	55.2	+ 12	1 doz.	21.7	30.3	32.2	34.7	+ 15	+ 8
White flour	1 lb.	4.5	4.8	5.2	5.4	+ 12	1.41 lb. wheat	2.0	2.3	2.2	2.4	+ 4	+ 9
White bread	1 lb.	8.2	8.4	8.6	8.6	+ 2	.97 lb. wheat	1.3	1.5	1.5	1.7	+ 13	+ 13
Corn meal	1 lb.	5.0	4.4	4.9	5.0	+ 14	1.5 lb. corn	1.8	1.9	2.2	2.2	+ 16	0
Rollod oats	1 lb.	7.1	7.2	8.7	8.7	+ 21	1.78 lb. oats	1.9	2.2	2.4	2.4	+ 9	0
Corn flakes	8-oz. pkg.	7.8	7.1	7.1	7.0	- 1	1.275 lb. corn	1.6	1.6	1.9	1.9	+ 19	0
Wheat cereal	28-oz. pkg.	24.3	23.5	24.0	23.9	+ 2	2.065 lb. wheat	2.9	3.3	3.3	3.5	+ 6	+ 6
Rice	1 lb.	8.2	9.1	12.4	12.5	+ 37	1.51 lb. rough rice	2.5	3.0	5.5	5.2	+ 73	- 5
Navy beans	1 lb.	6.9	8.0	9.0	9.1	+ 14	1 lb. dry beans	3.5	4.2	4.4	4.8	+ 14	+ 9
Oranges	1 doz.	31.5	34.1	39.5	39.1	+ 15	1/17 box	9.3	10.9	13.2	12.9	+ 18	- 2
Potatoes	1 lb.	2.5	2.2	3.3	3.2	+ 45	1 lb.	1.2	1.1	1.9	1.8	+ 64	- 5
Apples	1 lb.	5.5	4.7	6.6	6.2	+ 32	1 lb.	1.9	1.8	2.4	2.5	+ 39	+ 4
Lamb products	1 lb. prin. lamb	27.2	30.8	35.2	35.4	+ 15	2.16 lb. live lamb	16.2	21.8	26.1	25.7	+ 18	- 2
Sweet potatoes	cuts	4.4	4.3	8.3	6.4	+ 49	1 lb.	1.5	1.7	2.5	2.2	+ 29	- 12
Rye bread	1 lb.	9.1	9.0	9.2	9.2	+ 2	.39 lb. rye and	1.3	1.4	1.4	1.5	+ 7	+ 7
Whole wheat bread	1 lb.	9.3	9.6	9.9	9.9	+ 3	.64 lb. wheat	1.3	1.5	1.5	1.6	+ 7	+ 7
Macaroni	1 lb.	15.0	13.8	14.1	14.1	+ 2	1.72 lb. durum wh.	2.3	2.6	2.5	2.7	+ 4	+ 8
Soda crackers	1 lb.	16.9	15.1	16.5	16.6	+ 10	1.085 lb. wheat	1.5	1.7	1.7	1.9	+ 12	+ 12
Peanut butter	1 lb.	19.3	18.3	20.8	27.8	+ 47	1.73 lb. peanuts	6.1	7.3	10.4	9.3	+ 26	- 6
58 foods	Annual family	\$332	\$357	\$402	\$405	+ 13	Annual family	\$141	\$182	\$216	\$216	+ 19	0
consumed	consumption						consumption						

Retail prices are 51-city averages as published by the United States Bureau of Labor Statistics - Farm values are calculated from U. S. average farm prices.

1/ Revised.

2/ Preliminary.

3/ Less than 0.5 percent.

Table 7.- Price spreads between the farmer and the consumer - food products, margins, and farm value as a percentage of retail price

Commodity	Retail unit	Margin		Percentage		Farm value as percentage of					
		:		: change to		: retail value					
		:		: Aug. 1942 from-		: Aug. 1941 : July : Aug.					
		:		: 1935-39: Aug. : Aug. : July : Aug. : average: 1941 : 1942 : average: 1941 : 1942 : 1941 : 1942 : 1942		: 1935-39: Aug. : Aug. : July : Aug.					
		Cents	Cents	Cents	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Pork products.....	1 lb.prin.pork prod.	9.6	6.0.	3.1	2.8	- 53	- 10	62	77	89	91
Dairy products.....	100 lb.milk equiv.	178.0	184.8	1/205.5	2/202.5	+ 10	- 1	45	50	48	50
Hens	1 lb.	15.2	14.8	19.0	20.2	+ 36	+ 6	52	55	52	52
Eggs	1 doz.	14.3	15.9	16.6	19.5	+ 23	+ 17	60	63	64	62
White flour	1 lb.	2.5	2.6	2.9	3.0	+ 15	+ 3	44	45	43	42
White bread	1 lb.	6.9	6.8	7.1	7.1	+ 4	0	16	17	17	17
Corn meal	1 lb.	3.2	2.4	2.6	2.7	+ 12	+ 4	36	44	46	45
Rolled oats	1 lb.	5.5	5.3	6.3	6.3	+ 19	0	26	25	28	28
Corn flakes	8-oz. pkg.	6.2	5.5	5.3	5.2	- 5	- 2	21	23	26	27
Wheat cereal.....	28-oz. pkg.	21.4	20.6	20.8	20.7	3/	3/	12	13	14	14
Rice	1 lb.	5.7	5.4	6.5	6.9	+ 28	+ 6	30	39	47	44
Navy beans	1 lb.	3.4	3.6	4.4	4.6	+ 28	+ 5	51	54	51	49
Oranges	1 doz.	22.2	21.7	25.7	26.3	+ 21	+ 2	30	38	30	33
Potatoes	1 lb.	1.3	1.2	1.8	1.4	+ 17	- 22	48	48	54	58
Apples	1 lb.	3.6	2.9	5.3	4.2	+ 45	- 21	35	38	38	36
Lamb products.....	1 lb.prin.lamb cuts	11.0	9.0	9.8	9.1	+ 1	- 7	60	69	72	74
Sweet potatoes ...	1 lb.	2.9	3.8	5.3	5.8	+ 53	+ 9	34	33	27	30
Rye bread	1 lb.	7.8	7.7	7.8	7.8	+ 1	0	14	14	15	15
Whole wheat bread :	1 lb.	8.0	8.0	8.4	8.4	+ 5	0	14	15	15	15
Macaroni	1 lb.	12.7	11.6	11.5	11.6	0	+ 1	15	16	18	18
Soda crackers	1 lb.	15.4	13.4	14.8	14.8	+ 10	0	9	11	10	10
Peanut butter	1 lb.	13.2	10.9	16.3	16.4	+ 50	+ 1	32	40	37	39
58 foods	Annual family										
combined	: consumption	\$191	\$176	\$192	\$186	+ 6	- 3	42	49	52	54

1/ Revised. 2/ Preliminary. 3/ Less than 0.5 percent.

Table 8 .- Farm products: Indexes of prices at several levels of marketing, 1935-39 = 100

Year and month	: Cost :		Foods		Fibers		: Whole-:		: Farm :	
	: of :		: Retail :		: Whole- :		: sale :		: prices :	
	: living :		: prices :		: prices :		: prices :		: prices :	
	: of :		: of :		: of :		: of :		: of :	
	: city :		: all :		: of 58 :		: of :		: all :	
	: fa- :		: foods :		: foods :		: cloth- :		: farm :	
	: milles :		: :		: ing :		: pro- :		: and :	
	: 1/ :		: 1/ :		: 2/ :		: 3/ :		: 1/ :	
	: :		: :		: :		: 2/ :		: 4/ :	
	: :		: :		: :		: 2/ :		: 4/ :	
1913	: 71	80	: 81	95	: 69	81	: 111	94	: 95	81
1914	: 72	82	: 82	97	: 70	77	: 97	94	: 95	80
1916	: 78	91	: 96	110	: 78	99	: 131	111	: 111	100
1918	: 108	134	: 151	174	: 128	193	: 281	195	: 190	141
1920	: 143	169	: 174	193	: 201	232	: 282	198	: 199	162
1929	: 122	132	: 126	138	: 115	127	: 167	138	: 137	123
1932	: 98	86	: 77	62	: 91	77	: 55	63	: 61	86
1935	: 98	100	: 106	98	: 97	100	: 109	104	: 102	100
1936	: 99	101	: 104	108	: 98	101	: 114	106	: 107	100
1937	: 103	105	: 108	113	: 103	107	: 111	114	: 114	105
1938	: 101	98	: 93	92	: 102	94	: 81	90	: 89	98
1939	: 99	95	: 89	89	: 100	98	: 85	86	: 88	97
1940	: 100	97	: 90	94	: 102	104	: 97	89	: 92	99
1941	: 105	105	: 105	116	: 106	119	: 131	108	: 115	105
1939 -	:		:		:		:		:	
Aug.	: 94	85	: 85	96	: 85	80	: 83	96	:	
Sept.	: 101	98	: 95	95	: 100	101	: 91	90	: 92	98
1940 -	:		:		:		:		:	
Jan.	: 95	91	: 94	110	: 101	91	: 93	98	:	
Mar.	: 100	96	: 89	91	: 102	104	: 99	89	: 91	99
July	: 97	89	: 91	102	: 96	88	: 89	98	:	
1941 -	:		:		:		:		:	
Aug.	: 106	108	: 110	122	: 107	124	: 149	115	: 123	107
Sept.	: 108	111	: 113	128	: 111	126	: 168	120	: 131	109
Oct.	: 109	112	: 112	128	: 113	128	: 160	118	: 131	112
Nov.	: 110	113	: 113	130	: 114	128	: 154	119	: 127	113
Dec.	: 110	113	: 114	134	: 115	129	: 157	125	: 135	115
1942 -	:		:		:		:		:	
Jan.	: 112	116	: 119	138	: 116	132	: 164	133	: 140	117
Feb.	: 113	117	: 120	138	: 119	134	: 171	133	: 137	118
Mar.	: 114	119	: 122	139	: 124	136	: 174	135	: 137	121
Apr.	: 115	120	: 125	143	: 126	138	: 183	138	: 141	121
May	: 116	122	: 125	143	: 126	138	: 184	137	: 143	122
June	: 116	123	: 126	145	: 125	137	: 176	137	: 143	122
July	: 117	125	: 125	148	: 125	137	: 178	139	: 142	122
Aug.	: 117	126	: 127	153	: 125	137	: 174	140	: 152	122
Sept.	: -	127	: 5/ 129	153	: -	5/ 137	: 179	5/ 141	: 151	122

1/ From "Changes in Cost of Living" Bureau of Labor Statistics.

2/ Calculated from figures of the Bureau of Labor Statistics.

3/ Based on figures published by the United States Department of Agriculture.

4/ Cotton and wool prices weighted by production in the period 1935-39.

5/ Preliminary estimate.

Table 9 .- Indexes of food costs, consumer income and of charges and hourly earnings in marketing, 1935-39 = 100

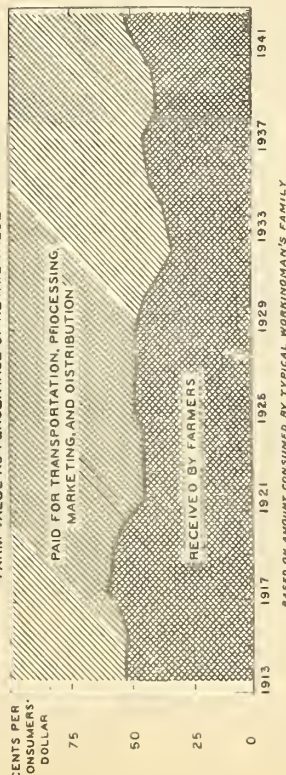
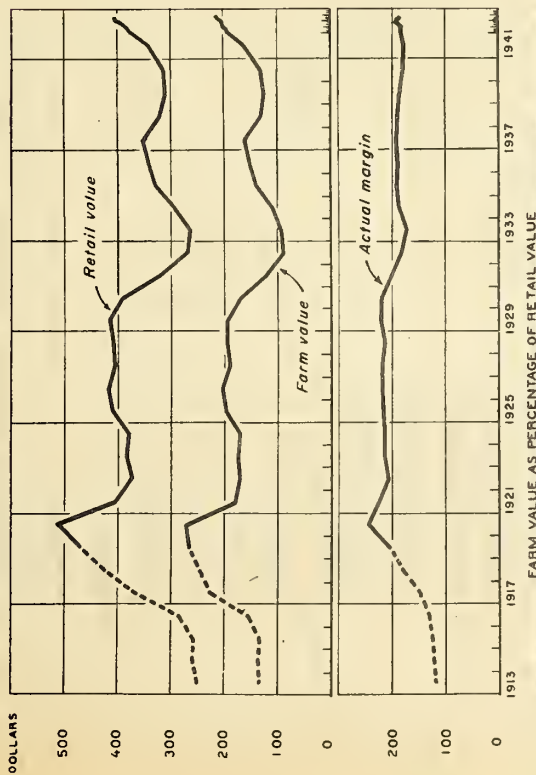
Year and month	:Retail :		Non- :		Monthly :		Payments:Marketing:		Hourly earnings in marketing enterprises					
	: cost :		: agricultural:earnings per :		: employed :		: farmers: of :		: Class I :		: Food :		: Food :	
	: 58 :		: income :		: factory :		: for 58 :		: steam :		: processing:marketing:processing :		: 5/ :	
	: foods :		: 1/ :		: worker 2/ :		: foods :		: railways 3/ :		: 4/ :		: 5/ :	
1929	125		122		118		138	115	93	-	-	-	-	-
1935-39 average :	100		100		100		100	100	100	100	100	100	100	100
1940	95		115		111		94	95	105	110	105	106	106	106
1941	103		137		131		116	93	106	116	110	119	119	119
1941 - Jan.....	96		125		120		102	92	106	113	107	108	108	108
Aug.....	105		141		135		122	92	103	115	110	124	124	124
Sept.....	108		141		139		128	92	104	115	110	124	124	124
Oct.....	109		144		140		128	95	103	118	111	130	130	130
Nov.....	110		144		140		130	95	106	121	113	130	130	130
Dec.....	110		150		143		134	93	119	123	114	130	130	130
1942 - Jan.....	114		152		150		138	96	119	125	117	131	131	131
Feb.....	115		154		149		138	97	122	125	119	131	131	131
Mar.....	116		156		149		139	98	119	126	118	132	132	132
Apr.....	116		158		153		143	97	118	128	119	132	132	132
May.....	118		160		157		143	99	118	129	120	136	136	136
June.....	120		6/ 164		6/ 160		145	102	117	130	120	136	136	136
July.....	121		6/ 167		6/ 164		148	101	117	128	120	137	137	137
Aug.....	121		7/ 169		7/ 167		153	97						

1/ United States Department of Commerce estimates. Adjusted for seasonal variation. New series.

2/ Prepared in the Bureau of Agricultural Economics from data of the U. S. Bureau of Labor Statistics, adjusted for seasonal variation. 3/ Compiled from data published by the Interstate Commerce Commission.

4/ United States Bureau of Labor Statistics. 5/ Weighted composite of earnings in steam railways, food processing, wholesaling, and retailing. 6/ Revised. 7/ Preliminary estimates.

RETAIL AND FARM VALUE OF 58 FOODS, UNITED STATES, 1913-42



U. S. DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS

Charges for marketing farm food products have been relatively low in recent years. In August 1942 the farmer's share of the retail food dollar reached 54 cents, a record high since the early 1920's. Retail cost of domestic foods has not yet reached the 1929 level. Nearly all of the large increase in consumers' expenditures for foods since the war began in 1919 was passed back to farmers in the form of higher payments for food products.

58 foods: Estimated retail value and equivalent farm value of quantities purchased annually by a typical workingman's family, United States, 1913-42

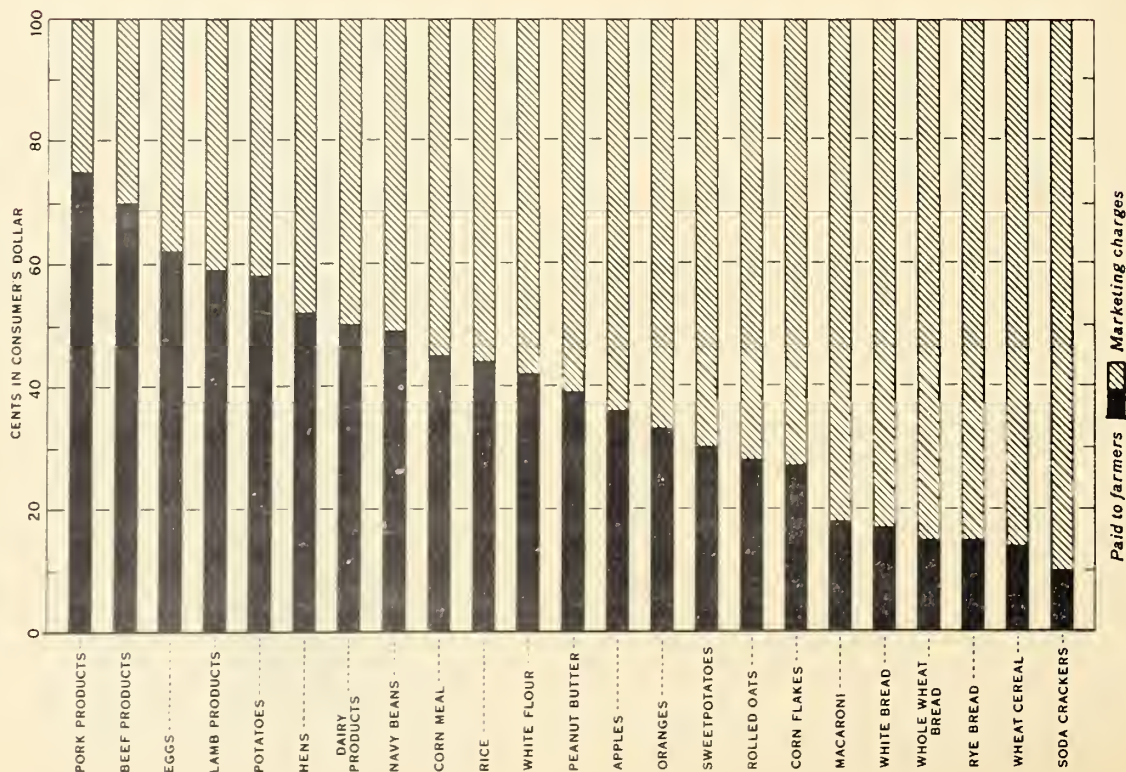
Year	Farm value Dollars	Retail value Dollars	Margin Dollars	Farm value as percent- age of retail value
1913	134	252	118	53
1914	137	258	121	53
1915	134	258	124	52
1916	155	285	130	54
1917	170	310	140	52
1918	203	374	171	54
1919	267	470	203	57
1920	272	514	242	53
1921	179	404	225	44
1922	170	374	204	45
1923	173	384	211	45
1924	170	381	211	45
1925	198	410	212	48
1926	202	418	216	48
1927	190	406	216	47
1928	194	407	213	48
1929	195	415	220	47
1930	171	391	220	44
1931	121	322	201	38
1932	88	270	182	33
1933	92	264	172	35
1934	108	295	187	37
1935	138	331	193	42
1936	152	342	190	44
1937	160	353	193	45
1938	130	321	191	40
1939	126	311	185	41
1940	132	314	182	42
1941	164	342	178	48
1942 -				
Jan.	194	378	184	51
Feb.	195	381	186	51
Mar.	196	384	186	51
Apr.	201	386	185	52
May	202	392	190	52
June	203	398	195	51
July	209	401	192	52
Aug.	216	402	186	54

Estimates of annual purchases of foods by a typical workingman's family were obtained from the 1918-19 Cost of Living Survey made by the U. S. Bureau of Labor Statistics. The 58 foods include meat, dairy and poultry products, bakery and cereal products, a number of fresh and canned fruits and vegetables, and several miscellaneous items.

1/ Retail price data are from the U. S. Bureau of Labor Statistics, farm price data are principally those estimated by the Bureau of Agricultural Economics.

2/ No allowance is made for processing taxes on wheat, rye, rice, hogs, corn, peanuts, and sugar, which, on the quantities of these products included in annual family purchases, amounted to about \$2 in 1933, \$10 in 1934, and \$11 in 1935.

FOOD PRODUCTS: THE FARMER'S SHARE OF THE CONSUMER'S DOLLAR, AUGUST 1942

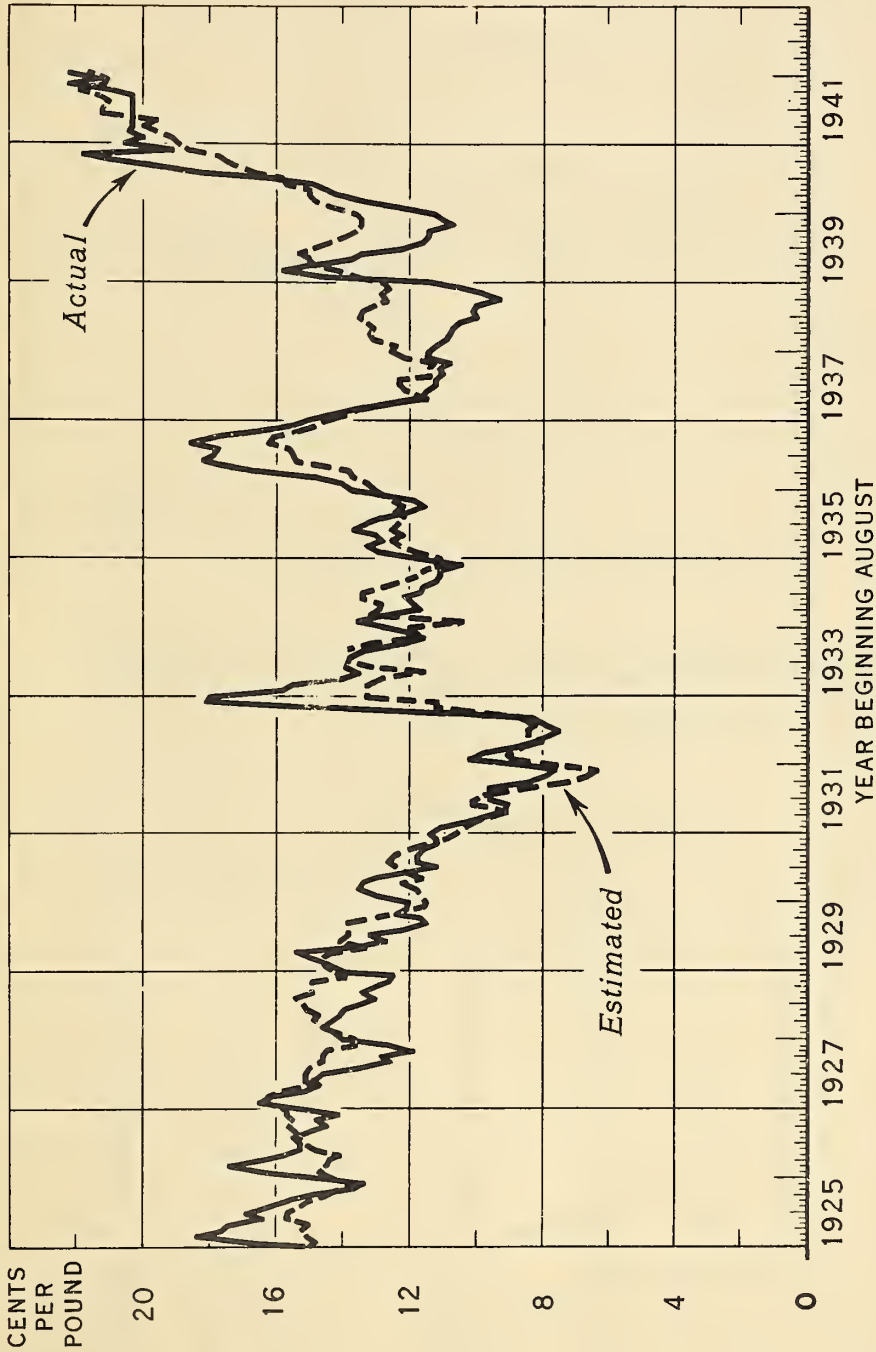


Food products: The farmer's share of the consumer's dollar, August 1942

Item	Aug. 1942	
	Retail price	Farmer's share
Beef products.....	100	70
Pork products.....	100	75
Lamb products.....	100	59
Hens.....	100	52
Eggs.....	100	62
Dairy products.....	100	50
White bread.....	100	17
Whole wheat bread.....	100	15
Rye bread.....	100	15
Soda crackers.....	100	10
White flour.....	100	42
Wheat cereal.....	100	14
Macaroni.....	100	18
Corn meal.....	100	45
Corn flakes.....	100	27
Rolled oats.....	100	28
Rice.....	100	44
Navy beans.....	100	49
Potatoes.....	100	58
Sweet potatoes.....	100	30
Oranges.....	100	33
Apples.....	100	36
Peanut butter.....	100	39
58-foods combined.....	100	54

In August 1942 the farmer's share of the retail price was greatest for meat, dairy and poultry products, and potatoes, and smallest for the highly processed and packaged items such as wheat cereal and soda crackers.

**COTTON MILL MARGINS: ACTUAL AND ESTIMATED FROM PER UNIT
LABOR COSTS, SPINDLE ACTIVITY, AND COTTON PRICE, 1925-42***



*BASED ON A MULTIPLE CORRELATION ANALYSIS

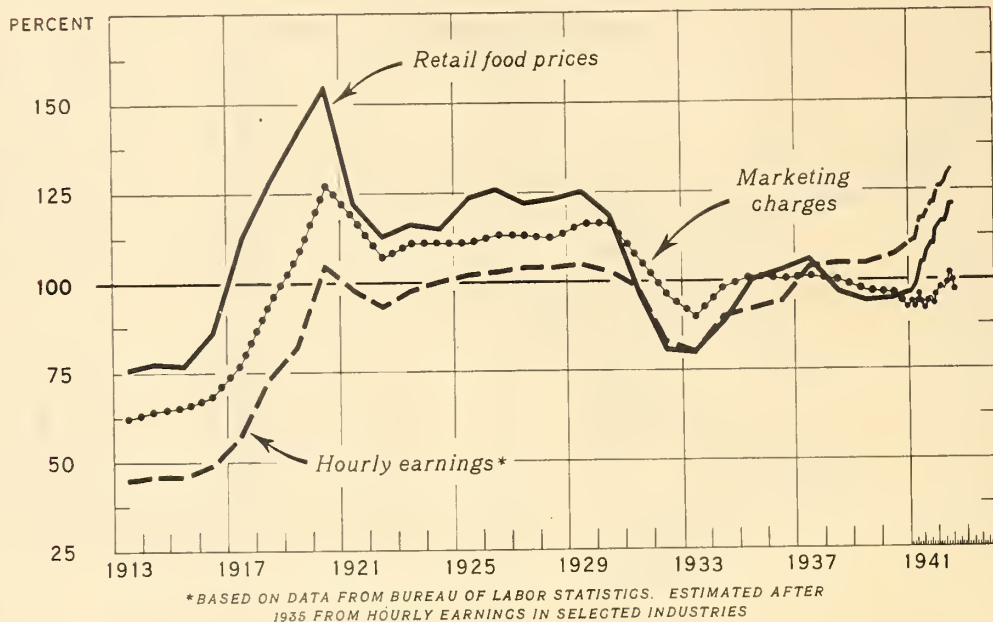
U. S. DEPARTMENT OF AGRICULTURE

NEG. 42375 BUREAU OF AGRICULTURAL ECONOMICS

MILL MARGINS REPRESENT CHARGES FOR SPINNING AND WEAVING 17 CONSTRUCTIONS OF UNFINISHED COTTON CLOTH. ESTIMATED MARGINS REPRESENT NORMAL LEVELS OF CHARGES FOR THESE OPERATIONS IN RELATION TO 3 SELECTED COST FACTORS AND INCLUDE NORMAL MARGINS OF PROFIT. DURING MOST OF 1941 COTTON MILLS WERE TAKING MARGINS MUCH HIGHER THAN APPEARED NORMAL IN RELATION TO COSTS. SINCE THEN THE RECORD HIGH MILL MARGINS WERE IN LINE WITH "NORMAL" MARGINS ESTIMATED FROM COST FACTORS.

CHARGES FOR MARKETING FARM FOOD PRODUCTS, RETAIL FOOD PRICES, AND HOURLY EARNINGS OF NONAGRICULTURAL WORKERS, UNITED STATES, 1913-42

INDEX NUMBERS (1935-39=100)



U. S. DEPARTMENT OF AGRICULTURE

NEG. 31094 BUREAU OF AGRICULTURAL ECONOMICS

Farm-retail marketing margins represent charges for marketing food products from farmers to consumers. Marketing charges are associated with the levels of retail prices of foods and with hourly earnings of workers in marketing enterprises. During recent years it appears that more efficient use of labor has offset higher costs per hour. Current marketing charges are below normal in relation to retail food prices and hourly earnings.

Charges for marketing farm food products, retail food prices, and hourly earnings of nonagricultural workers, United States, 1913-42
Index numbers (1935-39 = 100)

Year	Marketing charges	Hourly earnings	Retail prices	Year and month	Marketing charges	Hourly earnings	Retail prices
1913	62	45	76	1941 -			
1914	64	46	78	Jan.	92	110	95
1915	65	46	78	Feb.	93	110	96
1916	68	49	86	Mar.	94	111	97
1917	77	57	112	Apr.	92	111	98
1918	94	73	128	May	93	115	100
1919	107	82	142	June	96	117	104
1920	127	105	155	July	93	117	105
1921	118	98	122	Aug.	92	117	105
1922	107	93	113	Sept.	92	119	108
1923	111	98	116	Oct.	95	120	109
1924	111	100	115	Nov.	95	122	110
1925	111	102	124	Dec.	93	121	110
1926	113	103	126				
1927	113	104	122	1942 -			
1928	112	104	123	Jan.	96	125	114
1929	116	105	125	Feb.	97	126	115
1930	116	103	118	Mar.	98	126	116
1931	106	98	97	Apr.	97	127	116
1932	96	83	81	May	99	129	118
1933	90	80	80	June	102	130	120
1934	98	90	89	July	101	-	121
1935	101	92	100	Aug.	97	-	121
1936	100	94	103				
1937	101	104	106				
1938	100	105	97				
1939	97	105	94				
1940	96	107	95				

1170
c2048
1942

UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics
Washington; D. C.

AGRICULTURE - WHEN THE WAR ENDS

Address by F. F. Elliott, Chief Agricultural Economist, Bureau of
Agricultural Economics, before the 20th Annual Agricultural
Outlook Conference, Washington, D. C., October 21, 1942

Although the end of the global war in which we are presently engaged is not yet in sight, already there is keen speculation as to what the agricultural situation will be when the war ends and peace has been restored. There seems to be a genuine interest, if not an underlying anxiety, on the part of farmers and farm people with respect to this. They see the tremendous outlays for war purposes, the rising public debt, the large increases in production being called for, and they wonder what it all means - where we are headed - how the whole thing is going to end. Next to winning the war itself probably no question is of greater concern to them than this.

Farmers have a vivid memory of what happened after the last World War. They want to know if that situation is likely to be repeated - if we again are to have inflation followed by depression - or whether there is reasonable expectation that we shall be able to work things out so that markets, prices, income, and employment will be maintained at reasonable levels. They want to know, in short, what use we will make of our victory. Apart from the stimulus which positive ideas and concrete proposals with respect to these things will have in intensifying support for the war effort, is the importance of anticipating, if possible, what the probable trend in developments will be so as to be ready with workable programs of action when the need arises.

Obviously, it is not possible for anyone now to say just what the actual situation will be when the war ends. There are too many unknowns and imponderables in the picture to permit a categorical answer to the question.

What the actual situation will be depends upon a number of developments. It will depend, first of all, upon how long the war lasts and what happens during the remainder of the war period. It will depend also upon what policies we follow in liquidating the war and restoring the peace - upon how rapidly we demobilize and convert back to peacetime industry - upon how successful we are in maintaining national income and employment and in preventing inflation and its counterpart, deflation - upon the sort of fiscal and commercial policies we follow - upon the degree and kind of international political and economic collaboration we pursue - in short, it will depend upon the kind of post-war world we are going to have. We thus can only speculate about it - we cannot give a final answer.

If we are to be reasonably realistic in discussing the problem, we should not start, it seems to me, with the post-war period itself; rather we should start from where we now are, or with the immediate past and follow through the analysis sequentially, step by step, until we come to, and cover, the post-war period proper. This is the procedure we are following in an analysis of this general problem now getting under way in the Bureau of Agricultural Economics and it is the approach I shall use in the discussion this afternoon.

There is considerable logic in distinguishing three periods in the analysis. (a) From Now Until Hostilities Cease, (b) From the End of Hostilities Until the Accumulated Demand For Durable, Semi-durable, and Consumer Goods Has Been Met, and (c) The Post-war Period Proper. The overall situation that will prevail and the pattern that agriculture will assume in these three periods is likely to vary considerably. Let us consider, briefly then, what the probable developments will be in each of them; or more specifically, what the situation would be assuming certain alternative developments take place.

Situation At End Of Hostilities Conditioned
By Developments During The Remainder Of The War Period

Let us begin by considering, first, what the probable situation will be from now until hostilities cease. In doing so it will not be necessary to forecast just when the war will end; but it will be desirable to make certain assumptions as to how it will end. In this connection, it seems reasonable to assume that the war will not end abruptly - rather that it will come to a close first in the European theatre and that another six months to a year or more will be required to end hostilities in the Pacific area following the European armistice.

Regardless of when hostilities cease, it seems clear that the situation that will exist at that time will be determined in the main by the developments that take place between now and the end of the war period. It is important, consequently, that we give consideration to the probable nature and extent of these developments.

You are all familiar with the developments that have taken place to date - of the tremendous increases in production that have occurred in agriculture, particularly in livestock and livestock products, in oil crops, in certain types of vegetables, dry beans and peas, sugar beets, etc.; also of the sharp increases in price and in agricultural income. After the discussion this morning, you also are familiar with the problems and "bottlenecks" with respect to labor, machinery and materials, marketing, processing and transportation with which we presently are faced. You, likewise, are aware of the tremendous supplies of food products that we are sending abroad under Lend-Lease, the growing demands of our expanding Army, the increasing expenditures and tempo in the war effort, the possibilities of opening up a second front, and related matters.

Will there be an intensification of these same developments on ahead or will there be a slowing down or a possible reversal in some of the trends now under way? Will the requirements for agricultural products continue to rise? Can we step up production to keep pace with these requirements or will the scarcity of labor, fertilizer, and other materials prevent such increases? What changes, if any, in administrative techniques and procedures will be needed to maintain or increase present levels of production? When will we reach the peak of our war production effort? These are the type of questions we shall need to consider in estimating what the probable situation will be and the level of production, prices, income, and debt we will have reached when the war ends.

We clearly are not now at the peak of our war effort. We are continuing to convert civilian industry to war purposes, to expand plant capacity, and to step up war expenditures. We are now spending for war purposes at a rate of around 6 billion dollars a month. This is expected to increase possibly to 8 or 9 billion dollars a month at the peak of the war effort, which probably will not be reached until 1944. It also is expected that at the time of the supreme war effort employment will have risen to 54 or 55 million as compared with an estimated 52.5 million employed on July 1, 1942. (This, of course, is exclusive of the number in the military service.) With these tremendous increases in expenditures, in employment and production, the national income also will further increase. Some estimates put it as high as 140 to 150 billion by 1944. Along with these changes are coming very rapid increases in our military forces. We now have approximately four and one-quarter million men under arms in the Army alone - by the end of 1943 this number is expected to increase to seven and one-half million, and reach eventually possibly an even higher figure. If the

men in the Navy and Marine Corps are added to this, the total becomes even greater.

These tremendous changes in the war effort necessarily will affect agriculture. With the large losses of territory suffered by Russia, much of which was their most productive agricultural land, and the sharp drop in United Kingdom and United States imports as a result of aggression in the Pacific area and elsewhere, there unquestionably will be a need for all the agricultural products (with the possible exception of wheat and cotton) we shall be able to produce. We undoubtedly will be called upon to supply increased Lend-Lease shipments of food and other products. The extent of the actual increase in supplies that will be sent abroad will be determined primarily by the availability of shipping. The need unquestionably will exist, the problem will be to get the food and other products to the points where they are most needed.

An additional demand will arise in connection with second-front operations. As we progressively retake present occupied territory, we shall be called upon to feed and clothe the repatriated peoples. We also shall need to consider the relief needs of these as well as of the under-nourished and starved peoples of other countries when hostilities cease, and make provision for them between now and when the war ends. We, likewise, shall need to take into account possible further losses of territory to the aggressor nations, and build up contingency reserves and stock piles against such possible developments; also to build up reserves to guard against possible decreases in yield as a result of drought. We have been blessed now with a series of good crop years, obviously, we cannot assume that such will continue indefinitely.

With these various demands and requirements in prospect, we clearly shall need to put continued emphasis upon the production of the essential war crops we

have been encouraging - upon dairy, poultry, and meat products - upon oil crops, certain vegetable and canning crops, dried peas and beans; long staple cotton as well as hemp for fiber. I would assume, therefore, that the pattern of agriculture for the year ahead would not vary a great deal from the pattern that production followed in 1942. Whether the same levels of production are achieved, or whether there will be increases, however, is one of the unknowns that we cannot now determine. It will depend, in part, upon weather and, in part, upon how successful we are in solving some of the "bottlenecks" with which we are faced, particularly of manpower.

In looking on ahead into 1944, due to the further dwindling of labor and scarce materials, we may find it necessary to exercise a higher degree of selectivity in our production than we have heretofore found necessary. It even may be necessary to establish priorities on the production of essentials and discourage or prevent altogether the production of the non-essentials; that is, to use labor and scarce materials only in the production of those products for which there is absolutely an essential need.

In this connection it seems to me that we should give serious consideration, even in 1943, to the meeting of some of the increased requirements for food and other products, both for current consumption and for building up reserves, by imposing allocation and consumer rationing programs rather than attempting to meet them entirely through increasing production. Such a policy, in addition to economizing on scarce materials, would assure a more equitable distribution in consumption among the different income groups and would render less difficult the maintenance of price ceilings. The maintenance of such ceilings, at best, will be very difficult unless we develop more effective measures than now appear

in prospect for siphoning off the excess purchasing power that prevails in the economy. Such a policy, furthermore, would mean that we would not need to push production to such extreme limits as might otherwise be necessary. Obviously, the higher production goes, the greater the downward adjustment may be when peace returns.

Thus, it seems clear that we still face some rather important adjustments ahead during the remainder of the war period. I would assume that the pattern of agriculture we reach in 1944 will characterize, in general, the pattern for the remainder of the war, even if the war continues beyond this date. This does not mean that there will be no further adjustments - there undoubtedly will be such in certain items. But, in general, the pattern reached at that time should continue for the remainder of the war period and, hence, also, should characterize the situation when hostilities cease.^{2/}

While not now ready to characterize this probable pattern in specific terms (this must await more detailed analysis), I would assume the situation in general would be about as follows: When hostilities cease we shall find ourselves geared to a high level of production - higher in certain items than it is today - notably in hogs, beef cattle, poultry and possibly dairy production; also higher in feed grains, hemp, long staple cotton, and certain of the vegetable crops. Reserves also will be high, particularly for the Lend-Lease products and stocks for most products in general probably will be considerably above levels usually maintained during peacetime. We also will be possessed with an agricultural plant possibly somewhat impaired but still capable of continued production at

^{2/} I am speaking here and also immediately below of the situation as it would exist when hostilities cease in the European theatre - should the war continue for another six months or a year in the Pacific area, as seems likely, these levels probably would be reduced somewhat.

high levels. Prices of certain products, likewise, probably will be higher than today as will total agricultural income.

On the non-agricultural side, industry will still be geared to war-time production, but faced with a large accumulated demand for durable, semi-durable and consumer goods and with a greatly expanded and efficient plant awaiting conversion back to peacetime production. In this connection, the potentialities are substantial. The nation, for example, "will emerge from this war with capacities for making plastics, synthetic fibers, nitrates, hydrocarbons, high octane gasolines, and literally scores of chemicals and other raw materials on a scale that only two years ago was beyond our comprehension.

" By the end of 1943, our production of aluminum, for example, will be at a rate almost seven times greater than was attained in 1939 after 50 years of intensive development it will furnish in one year metal enough to build three times the number of passenger cars now operating on all American railroads. To produce this aluminum alone will require more electricity annually than was consumed in 1940 in 27 of our 48 states. We also will be recovering from brine, sea water, and other sources approximately 100 times the amount of magnesium that was produced in 1939 when the magnesium industry in America was 24 years old. After the war, the Nation's capacity for producing this lightest of all structural metals (it is about 60 percent of the weight of aluminum and one-fifth the weight of steel) will be more than double the output of aluminum in 1939.

"In turn, steel is challenging the light metals. Low alloy steels and new modifications of the higher alloy steels are bidding for expanding uses in aviation and wherever lightness and strength are requisites. In the steel

industry today, technicians speak confidently of monster aircraft that will be largely steel. These new alloys are three times the weight of aluminum and almost five times the weight of magnesium, but their tensile strength approximates 190,000 pounds to the square inch. This advantage permits weight to be shed by reducing bulk and eliminating needless supports."

"Equally significant are the developments that have taken place in petroleum and plastics. Whereas before the battle of Britain it was thought the ultimate in motor fuel was reached by the creation of a gasoline with an octane rating of 100, now we are producing fuel with octane ratings of 110 and 115 or higher. They deliver one-half again as much power as the 100 octane fuel. Plastics, likewise, were of sensational promise before Pearl Harbor. The newest and most versatile of plastics will be available after the war on a scale beyond all previous conceptions. The high pressure synthesis of ammonia, for example, will have taken on an industrial status that, in terms of new producing capacity, will be phenomenal. The amount of fertilizer chemicals that this new capacity could supply farmers will be so large (if permitted to function) that the basic trends of agriculture even might be affected. And this comprises but one group of a hundred or more products stemming from this high pressure synthesis, which utilizes air, water, and coal as its building blocks. Metals, fuels, and plastics thus are now ready not only to complete the revolution in transportation, begun early in the century, but also to contribute to improved construction and other equally important developments." 3/

In addition to these potentialities in production and techniques, industry will have available the greatest number of skilled and semi-skilled laborers in the history of the country. The problem will be how to organize our economy so
3/ "Molders of Better Destiny" by Dr. Charles M. A. Stine. (Reprint from Chemical and Engineering News.)

as to permit these skills and other resources to function most effectively. The task of converting back from war to peacetime industry will not be easy. It will take time - some maladjustments and unemployment undoubtedly will result in the interim. Taxes will be high and the debt burden heavy - all of which will add to the task.

What Will Likely Be The
Situation During The Transition Period

Faced with productive resources, levels of production, stocks, prices and accumulated demands when the war ends of the order and magnitude indicated above, what adjustments will be needed and what will the agricultural pattern likely be in the transition period - the period from the end of hostilities until the accumulated demand for durable, semi-durable, and consumer goods will have been met?

The situation that will develop in this period will depend in part upon how long the war lasts - how rapidly we demobilize and convert war industries back to peacetime production - the extent of the European demand for food and other materials we are called upon to fill - the policy we follow with respect to trade, our stock position with respect to particular commodities in surplus, etc.

The longer the war lasts, the greater the accumulated deficits in civilian goods presumably will be, and hence, the longer it will take to fill them. The longer the war lasts also the greater will be the strain and drain upon labor and other scarce materials. The length of the war, likewise, will have a bearing upon the length of time required to convert back to peacetime production. This is particularly true in case machines and tools presently set aside awaiting the return of peace, have to be scrapped completely to meet the extraordinary demands of the war for metal.

The rapidity with which we demobilize, in turn, will be determined by the way the war ends and the psychology of the country at the time. If the war does not end abruptly, as has been previously indicated seems likely, then presumably demobilization would be more gradual. On the other hand, the psychology of the country may be such as to force a more rapid demobilization than would be wise. The strains of the war upon the population generally will have been severe. Practically every family will have had either a close relative or friend in the conflict - casualties may have been high. The urge will be to get them home and out of the Army as soon as possible even though a rather large force undoubtedly will be needed for occupational and policing purposes. Conceivably the pressure may be so strong upon Congress and whatever administration that is in power as to force too rapid a demobilization. Associated with this will be the urge to abolish economic controls upon production, prices, wages, rents, etc., all of which conceivably might add up to a bad situation.

While it obviously is a guess, I would be inclined to assume that we will run into a moderate or possibly even a sharp recession in business activity and employment, the first few months after hostilities cease. This to be followed almost immediately by a marked and rapid recovery in which business activity and employment would go back up near to the peak period of the war but not reach it.

It seems highly probable that we shall not be able to come out of this war and convert back to peacetime production without dislocations and some recession in business activity and employment. Even with the best of intentions and with the most careful planning, there is not sufficient elasticity in our institutional set up to permit the making of the precise adjustments that would be necessary to bring about this much-to-be-desired goal. Lags inevitably will develop out of the myriad complementary, supplementary, and competing relations in our economy and

these, in turn, will produce dislocations and "bottlenecks" resulting in some temporary, if not prolonged, unemployment. We already have seen how these "bottlenecks" developed in the reverse situation while we were converting to wartime production. That they will recur and probably to a great degree, seems to me almost certain.

This is not to say that such a recession would be prolonged - it probably would not be since the general demand side of the picture would be so favorable to a rapid recovery. There accordingly should be little if any necessity for elaborate relief and public works programs at that time. Because of its expected temporary nature and because of the accumulated purchasing power in the hands of workers as a result of enforced savings during the war, labor and others generally should be able to weather the storm without being disadvantaged too much.

The effect of such a temporary recession upon agriculture should not be too severe. It would have some affect upon the prices of those products which vary with business activity. It also probably would mean some decrease in the prices of agricultural products generally, particularly of those in heavy supply. The affect, however, should neither be severe nor prolonged. It may be, in fact, that agriculture would be affected less than some of the other segments of the national economy. This arises from the fact that there will be a tremendous demand for food and other agricultural products for relief the moment the war is over. The demand for food will come first. It will have priority over all other demands. We not only shall have to feed the repatriated nationals of the United Nations but undoubtedly we shall be called upon to help feed the under-nourished and starved, peoples of the defeated nations as well.

Regardless of how this is handled, whether under Lend-Lease, through the advance of long-time loans, or on a gratuitous basis, we probably will find that

our stocks and reserves of food products particularly will melt away quite fast. There would appear to be little danger of any surpluses we may have at the time becoming burdensome. The question rather will be, Will we have enough?

For the first 6 to 12 months after the war these relief needs should continue high. There should be a very strong demand for fats, dairy products, meats, and other types of protective foods. Wheat and the other bread grains also will be in considerable demand as will cotton.

After the full flush of this relief demand has been met, it would be reasonable to expect some levelling off. The various European and other countries will have reorganized their domestic economies and agricultural and other production will begin to rise. Competition from other raw materials countries will increase. Business activity in the United States, however, should be gaining momentum in the meantime so that the demand for our own agricultural products should continue at a high level. It would be reasonable to assume that this situation will continue until the limits of the accumulated demand for durable, semi-durable, and consumer goods is approached or has been reached. The situation, of course, will not be uniform with respect to all commodities - the limits for some of them will be reached earlier than for others and downward adjustments in production in such products probably will be in order and necessary.

Just how long the recovery phase of this transition period will last, of course, is problematical. Some economists are assuming that it will continue for at least as long a period as the years we were in the war. Its duration, it seems to me, will be determined in large measure by the way we manage our affairs after the war. It will depend upon how successful we are in liquidating the war and restoring the peace - particularly upon the sort of fiscal and trade policies we adopt and the kind of programs we develop in modernizing our economy. There does

not appear to be any fundamental reason why it could not continue for an indefinite period assuming we are willing to pay the price and do the things that would be necessary to have it continue so. We certainly will have the resources, the skills and the techniques for keeping our economy on an expanding basis. The question is whether we shall provide the policies, the organizational framework and the institutional adjustments that will permit it to so function.

What Will Likely Be the Situation
In The Post-War Period Proper

This brings us forward to the Post-war Period proper. What will be the situation in this period? Obviously, the problems and questions surrounding and inherent in this period are the most difficult and complex of all to answer. I certainly do not presume by any means to have the answer. In the brief time remaining I shall attempt only to outline an approach which seems to me to offer an intelligent basis for analyzing the problem.^{4/}

When the post-war period proper is reached things presumably will have settled down - peace will have been restored - industry will have been reconverted to peacetime production and many of the overall policy decisions will have been made providing the general framework within which our post-war economy must function. Just what will be the nature of these overall policies (national and international) we, of course, are now in no position to indicate. They, however, will govern, to a much greater degree than in either of the other two periods, the pattern that agriculture will follow.

Faced with these unknowns, what type of analysis shall we undertake? Two possible approaches might be used: (a) We might set up a definite working hypothesis of the expected trend of events and seek to forecast the pattern that agriculture is most likely to take in the post-war period, or, (b) we might set up

^{4/} This approach is the same as that being used in the analysis of this problem now getting under way in the Bureau of Agricultural Economics referred to above.

a series of alternative assumptions, embracing a rather wide range of possible or desirable developments, and seek to indicate thereby what the pattern would be under the different situations.

Of these two approaches, the second appears much the more fruitful for our purposes. There are obvious difficulties in attempting a forecast of the character that would be necessary under (a) even under the best of conditions. With the many unknowns now in the picture, it would be extremely questionable, if not foolhardy, to attempt it.

The second approach has the advantage of showing what the pattern would be under a range of alternative developments, wide enough possibly to include or approximate the real pattern itself, whatever the course of events. It should yield results, furthermore, that would be quite helpful as a guide in formulating policy. By indicating the probable patterns that would result from a series of alternative situations, administrators and others in policy-making positions certainly would get a broader perspective and would be given an awareness of problems and difficulties which the other approach simply would not yield.

Accepting the second of these approaches then as the basis for our analysis, what alternative situations shall we assume? Three such are suggested:

1. Let us assume, in the first place, what may be termed a "Back to Normalcy" situation -- a situation in which selfish interests will dominate. That is, assume that we would return to all of the maladjustments in our domestic economy that existed prior to the war: also assume that international trade will be stymied -- trade barriers lowered but little, if any, or even raised -- and attempt to indicate what the pattern of agriculture likely would be under this situation.

2. Let us next go to the other extreme and assume what may be termed a "Long-time Desirable" situation - in which a forthright effort would be made to revamp not only our own, but also the economy of the world, with the view of achieving certain long-time desirable goals for agriculture as well as of working toward or achieving the objectives set forth in the Atlantic Charter, and the third of the President's Four Freedoms (Freedom From Want).
3. Let us assume lastly a situation in between the other two - in which an effort would be made to develop programs that would achieve or move in the direction of achieving only the more important and most pressing of the Long-time Desirable Goals in (2).

The first of these alternatives obviously is far from the situation we all would like to see emerge in the Post-war Period. There certainly is sufficient intelligence, foresight, and statesmanship in this and the other countries of the world to prevent it from happening. But there is no absolute assurance that it will not happen. Conceivably we might win a military victory, but because of both domestic and international selfishness, petty jealousies, bickerings, etc., lose the economic victory. Let us hope that such will not be the case and that we shall achieve a better ordered world than this. (An assumed recurrence to such a situation is included in the analysis merely to show by contrast the sort of thing we do not want.)

The second of the alternatives goes to the other extreme and is designed to show that the pattern of agriculture would be under a more or less assumed ideal situation. In developing the analysis under this alternative it becomes necessary to set up certain goals that might be assumed to reflect the long-time desirable situation that we would like to see.

Without presuming to give a final answer to what these goals should be, or more specifically, what the farm group wants and will accept, the following are suggested as tentative goals for use as a basis for the analysis:

1. That (a) prices of all agricultural commodities for domestic consumption be maintained at such levels as to yield parity income (either parity income as defined in existing legislation or under some other definition if a better one can be found), without, at the same time, pyramiding and freezing surpluses in storage at high government loan rates, or (b) prices of all agricultural commodities for domestic consumption be maintained at about current parity levels and that prices for that portion of export crops sold abroad be maintained at one-half to two-thirds of current parity.
2. That not to exceed 20 percent of the total national population, or 30 percent of the population on farms in the period 1935-39 (whichever is higher) be maintained in agriculture for the primary or sole purpose of farming.
3. That agricultural production be maintained at such levels and in such patterns as to permit adequate nutritional diets - adapted to the economic resources and food habits of the different income groups in the population (that is, an adequate diet, say, (a) at minimum cost for the lower one-third, (b) at moderate cost for the middle one-third, and (c) at high cost (liberal) for the upper one-third).
4. That agricultural production be distributed among the different regions, states, and areas so that: (a) Production will be maintained on a sustained yield basis, (b) The crops and livestock grown in each area will be those

best adapted to the physical and other conditions existing in the area; and on size of units large enough to permit efficient operation and to yield incomes adequate for a decent standard of living.

5. That land not suited for farming (cropping) be kept in forests, (public and private) parks, grazing and game preserves, watersheds, etc. with the view of bringing about the most effective utilization of all our resources and of assuring the nation an adequate supply of forest products, water, and recreational facilities.
6. That facilities and services (housing, hospitalization and medical care, schools, electrification, etc.) be maintained in rural areas at levels necessary to result in reasonable parity treatment with other groups in the population.
7. That the marketing system be so organized as to (a) process and distribute agricultural products at the lowest possible costs, thus making it possible for farmers to receive a parity income without placing an undue burden upon the consumer; (b) provide an efficient mechanism whereby market prices at all stages can be correctly determined and known; and (c) broaden market outlets so that farmers can dispose of unrestricted output of the farm plant as a whole without having to accept "surplus" prices for the entire volume of production.

In the third and last of the alternatives, a middle course situation is assumed. Obviously, it would be quite difficult to effect all the necessary adjustments in our agricultural and industrial economies to realize all of the goals set forth in the second alternative. Considering the heavy financial burdens that undoubtedly will be faced by the Treasury after the war, the reluctance and inertia of the

public, in general, to accept reforms, and the political uncertainties of international agreements and undertakings, it may be that the goals actually realized will fall somewhat short of the "ideals" we have discussed.

Let us assume that this is the case and modify the "ideal" goals accordingly, and work out the pattern that agriculture would assume under this modified situation. In such an analysis we would need to estimate specifically what adjustments in production, consumption, marketing prices, incomes, etc. that would be involved under this situation in the same way and manner as under the other two alternatives.

I am fully aware that an analysis of this kind would not tell us specifically what the actual pattern of agriculture will be in the Post-war Period Proper. It, however, would show what the pattern would be under a range of alternative developments that possibly are broad enough to set the limits within which the true pattern may fall, whatever the course of events. At any rate, this is about as far as we can go with a situation so beset with unknowns and imponderables as is this one.



C2048
1942

Remarks made by Hector Jose Santaella of Venezuela, on the
Occasion of the 18th Annual Outlook Dinner,
October 20, 1942, in Washington, D. C.

Mr. Secretary of Agriculture, officials of the Department of Agriculture and other agencies, officials of the Dominion of Canada and of Great Britain, representatives of the various States of the Union, ladies and gentlemen:

It is a very special honour to address you at this 18th Annual Outlook Dinner, at which representatives from all over America are present, on behalf of the Latin-American agricultural officials here tonight. It is certainly a great honour for all of us to be among you tonight, and to have this added opportunity to study and to discuss with you, with a feeling of true friendship, problems that concern the economy of our beloved continent.

We also are proud to be the first Latin-Americans to share in the Outlook Conference, and to work with our good neighbors in preparing our continent to accept the destiny required of us by current historical events. To keep our rendezvous with destiny will require still greater unity and intimacy between all of us. But, fortunately, this has been instituted, and accomplished to a great extent, by the close and intelligent relations that Americans have displayed by means of the "Good Neighbor" policy.

Nevertheless, this policy is not merely one of cordiality and good wishes: Rather, it has developed, and must continue to do so, from both moral and economic principles. Relations among the Americas represent the profound long-time sentiments of the people living in the new world, as well as immediate and political necessities.

Both North America and Latin America need each other as areas of complementary economy. We recognize this fact more than ever now. And under the guidance of democratic principles, we are showing the world a continent that fights not only for its own material defense, but to maintain the civilization, the moral principles, and the culture of the Christian world. It is an honor indeed, for Americans of this generation to accept the resolution of our destiny. We have dedicated ourselves joyfully to the defense of all vital to our own spiritual and material existence.

The hand of friendship that is extended across the continent in a warm hand clasp shall remain unbroken. And we hope that this friendship will be as much cultural as economic. Both the Americas should try to find amongst themselves both the culture and materials they heretofore have sought outside their boundaries.

We, Latin Americans who are present, have been granted an opportunity to cooperate in this sense; and we are doing our best to fulfill our obligations in this respect.

I wish to thank, on behalf of my fellow members and of myself, all who have made this possible. The United States government may be sure that when we go back to our countries, we shall carry with us both the technical information we have obtained in this country, as well as the feeling of cordiality of the people of the United States to the people of our countries.

1.90
C20u8
1942

THE NATIONAL WAR LABOR BOARD'S
CONTRIBUTIONS TO ECONOMIC STABILIZATION

Address by Wayne L. Morse, Dean, University of Oregon School of Law and Public Member of the National War Labor Board, at 20th Annual Agricultural Outlook Conference, Washington, D.C., October 20, 1942.

Before discussing the National War Labor Board's contributions to economic stabilization, it would seem best, in the interest of clarity, to note some of the considerations which necessitated the Board's creation and some of the problems with which the Board has been faced. The original Executive Order of January 12, 1942, authorized the Board to "finally determine" labor disputes which threaten the prosecution of the war but did not limit the Board's jurisdiction to disputes over any particular subject matter. The only question was whether a given dispute threatened the successful prosecution of the war.

In times of peace, labor and industry have always settled their own disputes by the procedures of collective bargaining and, in the event of failure to agree, then by resort to economic force. However, as the speaker said in an opinion on the Board's jurisdiction in the case of Montgomery, Ward and Company, handed down on June 29, 1942:

"We must all be willing to do a good many things that many of us undoubtedly said before this country entered into the war we would never do or agree to do. The Board appreciates the fact that prior to the war many American employers held views similar to those which have been announced by the Montgomery, Ward & Company in regard to settling labor disputes with their employees. Likewise, the Board appreciates the fact that many American unions prior to the war have strongly opposed some of the procedures which the Board, acting under the national industry-labor agreement and the Executive Order of January 12, 1942, has followed in settling wartime labor disputes. The Board does not question the right of American employers and unions during times of peace to take a stand in defense of some principle of industrial relations which they consider fundamental and to fight for that principle even though it may result in great costs to the industry or to the union. The right to follow such a course of economic action constitutes one of the freedoms of our democratic form of government. However, such freedom of action has now been voluntarily surrendered because its exercise during a time of war would threaten the existence of the very democratic society with the freedoms which the war is fought to protect.

"During times of peace an employer is free to say in his fight with the union, 'I prefer to close out my business--yes, lose every dollar I have in it--rather than to yield to what I think is an unreasonable demand on the part of this union.' There

are many examples of industrial struggles in this country during recent years in which American employers have said just about that with varying results. In some instances employers who have taken such an uncompromising position have won their fights with labor at least for a time but with varying costs. In other instances they have paid the penalty of financial ruin for defending what they considered to be a 'fundamental principle.' The spirit of 'rugged individualism' shown by many of the leaders of American industry in their clashes with labor, especially during the past twenty years, has won the respect of many people. At least this has been true when the public has been satisfied that the employer tactics have been fair and free of abuses. Americans by and large enjoy a controversy. A 'good industrial fight' put on by a hard-hitting individualist, be he employer or union leader, has been tolerated if not approved, by the public on the ground that such struggles are a part of our system of free enterprise and rugged individualism.

"However, such a so-called policy of 'rugged individualism' cannot be exercised without qualifications during war-times. It certainly is not morally proper for an employer to take the position during wartimes that he will fight it out to the finish with labor even if he has to close down his business. In a very real sense every American business of any magnitude these days is vested with a public interest and employers, as well as unions, must expect and accept such curtailments of their freedom of action as may be necessary in the interests of the war program."

The National War Labor Board was given the job of working out fair and equitable solutions to disputes between labor and industry. It did not take jurisdiction over a dispute until all means of peaceful settlement had been exhausted. Therefore, cases coming before the Board were ordinarily of unusual complexity and usually involved a certain amount of bitterness and hard-feeling. In determining labor controversies the Board has always sought that solution which would best promote maximum war production. Obviously, such a solution has to be one which will result in industrial harmony and at the same time not disrupt national economic stability.

In speaking of economic stabilization people generally are inclined to think in terms of wages and prices. However, it should be remembered that to stabilize an economy there are innumerable factors that must be taken into consideration. It is not enough that wages and prices be stabilized. Working conditions must be stabilized; hours must be stabilized; the collective-bargaining relations of union to employer must be stabilized. All such factors exert a strong influence upon the processes of production, distribution and consumption.

The National War Labor Board has, within its jurisdiction, attempted to make stable the entire relationship of labor and industry. It has realized from the beginning that this was no simple job. The problem of stabilizing working conditions is a very complex one. Wartime exigency makes inapplicable the ordinary considerations upon which working conditions depend.

Factories have been converted from peacetime production to wartime production. During that period of conversion thousands of workers lost employment. Thus we witness constantly the paradox of a scarcity of skilled workmen, and at the same time thousands of skilled workmen out of work. As conversion to wartime production becomes more and more perfected, there are fewer layoffs due to conversion. However, many people overlook the fact that continuity of employment in war industries is one of the major manpower and production problems of the nation. A failure to convert rapidly enough or to supply on time necessary raw material usually results in throwing thousands of employees in many other plants out of work. Thus, just a few days ago several thousand workers in a vital war plant were laid off because raw materials were unavailable.

Such layoffs have very unstabilizing effects because it is only natural that the workers become very much concerned about the security of their employment and start looking elsewhere for jobs, and the resulting dislocations of manpower lower the efficiency of the plant for some considerable time after it starts operation again.

It should be observed that factories once employing a few hundred men now employ thousands. Unions have given up the right to strike and employers the right to the lock-out. It was inevitable that this vast industrial expansion would bring forth much labor friction and dissension.

On the question of wages the problem became even more complex. The large increase in man-hours of employment that took place throughout the country increased our national purchasing power. At the same time the conversion to wartime production removed from the market an increasing proportion of civilian goods. The increase in purchasing power and decrease in consumer goods resulted in a trend towards higher prices. The cost of living climbed 15 percent on a national scale between January 1, 1941, and May, 1942. The obvious result of this was that workers wanted higher wages to meet their higher living costs. Higher wages in turn added to the cost of production and that additional cost was in turn reflected in higher prices. Thus began the cycle of inflation.

It is indisputable that unchecked inflation would result in national disaster. The Board has always realized that inflation would make meaningless the wage increases which brought it about. Thus the laboring man would be the greatest sufferer. As the speaker put it in the Board's decision in the International Harvester case, "Pockets bulging with cheap money are in fact empty pockets, close to empty stomachs." However, the Board realized that it would have an equally unfortunate effect upon the war effort to deny all wage increases and adopt a wage-freezing principle with all of its inequities and injustices.

In many instances there were valid reasons and justifications for wage increases. Very early in its deliberations on the wage stabilization problem, the Board recognized that it was dealing with complex economic considerations and that its primary task was so to balance the many interests involved as to promote a maximum of production and, at the same time, help check inflation. Many human factors which arm-chair economists are prone to ignore when devising their academic theories could not be ignored by the War Labor Board.

The Board is faced with problems of dynamics and not statics--problems of dynamics in which human factors are of major importance. Labor problems are in a very real sense problems of human relationships. Frequently, if not usually, the behavior and reactions of individuals, especially groups of individuals involved in labor disputes, cannot be fitted into and handled by some nice logical theoretical formula which fails to take into account the fact that the motivations of quarreling men seldom rest upon premises of abstract logic. The War Labor Board had a job to do and it had to think and act realistically. It was confronted with a national labor relations pattern, the chief coloring of which was ill-feeling and distrust on the part of labor and employers toward each other.

Labor alleged that employers were making huge profits and that therefore the laboring man had some right to an increased wage in view of the fact that the things he was producing were bringing higher prices and because he needed more money to maintain his standard of living.

Further, the Board was confronted with a wage picture which showed great wage inequalities throughout the nation. Thus, wages in an area may have risen, whereas those in a particular plant have not, and the workers feel that they have an equitable right to have their wages increased in line with those of their neighbors, especially if their neighbors are performing similar tasks in like industries. Too, there was the question of substandard wages which ties in with both inequalities and increased profits in that the worker who had been receiving a substandard wage would be unwilling to accept that wage when he found that his employer was making large profits. He would also be desirous of an increase when he found that his neighbor who had previously been receiving substandard wages was no longer doing so.

There was no clear-cut wage policy established by the Board prior to the "Little Steel" case in which the National War Labor Board enunciated its so-called wage stabilization yardstick. The cases prior to that time, however, laid the foundations on which to rest the "Little Steel" formula. The Board, over a period of time, in accordance with the sound common law approach of deciding each case on its merits but on the basis of principles which can be applied in future cases, had evolved certain criteria applicable to wage disputes. The "Little Steel" opinion does not lay down a mathematical rule or pat formula which can be applied irrespective of the facts of a given case. The opinion in the "Little Steel" case does fix the relationship between wage increases and cost of living and it does place a terminal on the race between wage increases and the cost-of-living increases. It should be recognized that wages cannot be stabilized until they are tied to certain definite and ascertained factors. That is what the Board attempted to do in the "Little Steel" case. The rule of that case was concisely stated in the case of *Norma-Hoffman Bearings Corporation v. United Electrical, Radio, and Machine Workers of America*, CIO, as follows:

"In the 'Little Steel' case the National War Labor Board set up a wage stabilization formula which basically provided that if an appropriate group of employees had not received wage increases from January 1, 1941 to May 1942, equal to or in excess of the 15 percent national increase in cost of living for the period of time, a general wage increase would be granted by the Board which would raise

the wages of that group to the level of a 15 percent increment over their January 1, 1941, hourly wage rate."

When it is realized that the "Little Steel" decision came after the Board has been in operation for almost six months and had been faced with the wage issue in numerous cases, it can be recognized that this case was no sudden departure; it was the culmination of thought and discussion of all cases that went before it.

It may be well at this point to mention the reason for the dates selected by the Board in establishing its formula in that case. January 1, 1941, was taken as the beginning date because the Board's economic research had led to the conclusion that January 1, 1941, marked the end of a relatively stabilized period in the economic cycle. After that date living costs began to climb under the impact of war economy. The rise in living costs was measured as of the period ending with April 1942, because on April 27 the President enunciated his seven-point stabilization program. The Board in considering the various factors governing wages had to assume that the President's program would be effective in toto, and therefore looked upon the period beginning with May, 1942, as a period of over-all economic stabilization. It was the Board's job to stabilize wages during this period. To other agencies and organizations was given the job of stabilizing the remaining factors in our economy.

The proof of a pudding, as has often been said, is the eating; the proof of the "Little Steel" formula is its application. It has not resulted, as was prophesied in some quarters, in a tremendous surge of wage increases. In fact, when it was applied to the cases of Remington Rand v. United Electrical, Radio and Machine Workers, AFL; Aluminum Company of America v. International Union of United Automobile, Aircraft and Agricultural Implement Workers of America, CIO; the American Magnesium Company of America v. United Mine Workers of America; and in many more recent cases, it resulted in no general wage increase at all.

The Board has not as yet interpreted and applied the Executive Order of October 3, 1942, in a sufficient number of cases to justify anyone's saying with certainty what modifications, if any, the Board will make in the wage policies which it applied prior to the new Order. However, it is reasonable to assume that the Board will continue to apply such flexible standards and principles as are necessary to correct maladjustments, inequalities, substandard wages, gross inequities, and to aid in the effective prosecution of the war. As the Board has made clear in a series of decisions, any attempt to apply an out-and-out wage freezing policy not only would be productive of many injustices, but it would be bound to interfere with maximum war production.

Thus, the speaker stated in the Board's decision in the General Cable Company case, handed down August 5, 1942, that:

"The best test of any standard is whether it is capable of consistent application to cases which involve new sets of facts but which at the same time are characterized by common problems. Obviously, wage stabilization cannot be accomplished in this country if varying yardsticks of wage measurement are applied to cases

involving identical or similar operative facts. Such a policy would be bound to give rise to wage inequalities and arbitrary and capricious wage determination.

"Likewise, the adoption of an inflexible wage standard which would 'freeze' wages indiscriminately as of a certain date would result in the continuation of existing wage inequalities and unfair wage discriminations. The application of such a standard would not result in wage stabilization, but rather in pegging wage rates with their unstabilizing inequities. This would not take into account the injustices involved or the adverse effects of such a policy upon maximum production of war goods caused by lowered morale."

However, in my judgment it would be unwise for American labor or employers to assume that under the Executive Order of October 3, 1942, it is permissible to apply such flexible wage standards as will permit general wage increases throughout the country. Quite the contrary is to be expected and is to be desired. As the speaker pointed out in his decision in the International Harvester case, American labor cannot

"... expect to receive throughout the war upward changes in its wage structure which will enable it to keep pace with upward changes in the cost of living. On the other hand, every attempt should be made to protect the real wages of labor to the point that they do not drop below a standard of living sufficient to maintain health and decency. Without doubt wages in substandard brackets should not only be increased to meet changes in cost of living, but, whenever possible, they should be raised to the standard level. . . . Labor should not be put in an economic straitjacket during the war without redress to some such agency as the War Labor Board which has authority to grant fair deserved wage adjustments."

The War Labor Board machinery and procedures provided for in the Executive Orders of January 12, 1942, and October 3, 1942, permit of fair and deserved wage adjustments, but at the same time the Orders make perfectly clear that general increases in the wage structure of the country must be considered out for the duration of the war. Not only is it right to expect labor to forego taking advantage of the exigencies of war conditions in order to push its real wages above peacetime levels, but when viewed from the standpoint of our wartime economy and from the standpoint of the welfare of labor itself, it is essential that labor forego wage profiteering.

It would seem to be clear that the Executive Order of October 3, 1942, enunciates a guiding principle which should be considered basic in stabilizing wages; namely, that wage rates prevailing on September 15, 1942, should be considered prima facie as fair, equitable, and just wages. It is my judgment that those who request a general wage increase over and above the wage rates of September 15, 1942, should assume the burden of proof in showing that such an increase, (to use the words of the Executive Order), "is necessary to correct maladjustments or inequalities, to eliminate substandards of living, to correct gross inequities, or to aid in the effective prosecution of the war."

I think it is exceedingly important that the true friends of labor should make very clear to American labor that a sound stabilized war economy so vital to the successful prosecution of this war will not permit of general wage increases which constitute, in fact, increases in real wage levels. As the speaker stated in the decision in the Ford Company case, released last Saturday, "It would be a reflection upon the patriotism of (American workers) to attempt a justification of a general wage increase on the basis of any argument that such an increase should be granted under that provision of the Executive Order which states 'to aid in the effective prosecution of the war,' " if, as in the Ford case, the wage rates of September 15, 1942, are relatively good wages, permitting of a standard of living of health and decency.

As stated in the Ford decision:

"An 'all-out' production effort on the part of American workers does not have to be bought or bribed by inflationary general wage increases which in turn endanger our war economy and in the long run decrease real wages.

* * * * *

"Furthermore, when it is recognized that the winning of this war is going to necessitate great sacrifices on the part of each one of us, it is not at all unreasonable to ask and to expect the Ford employees to forego a general wage increase at this time in the interest of national economic stabilization."

The tripartite organization of the Board assures to labor and industry a voting voice in the decisions of the Board and in the administering of the Board's wage stabilization policies. Such a democratic procedure guarantees to American labor and to employers that their problems and views in specific cases will be given adequate consideration before the Board makes a final decision. The splendid record of labor and industry throughout this war leaves no room for doubt as to their willingness to abide by the decisions of the Board in the rendering of which their representatives have a voice and a vote.

The Executive Order of October 3, 1942, has placed upon the Board a very great administrative burden. It now has to handle such a great mass of cases that it will be impossible for the twelve Board members to look at each case. The Board is going ahead as rapidly as is possible in formulating rules and regulations that will enable us to administer this new program efficiently and fairly.

Further, a six-man division of the Board is sitting each day and deciding the cases which have accumulated on the docket of the Board. Although it is to be expected that it will take some little time before the administrative machinery and policies of the Board made necessary by the Executive Order of October 3, 1942, can be put into full operation, nevertheless American labor and employers may be sure that the Board is proceeding just as rapidly as the complex problems before it permit.

Union Security as a Stabilizer

The right of labor to strike had proved to be an effective weapon in winning its battles with employers over the issue of union security. Then came the no-strike agreement. Did that agreement imply that labor was to be deprived of its right to seek greater security during the war through collective-bargaining processes and the machinery of the National War Labor Board? Clearly, it did not. Any such interpretation would have to rest upon the assumption that labor not only agreed to refrain from striking but also agreed to refrain from holding its gains and making itself secure during the war. What the agreement with the President did encompass was that labor and employers would endeavor to settle their differences over all issues in all disputes by collective-bargaining processes and failing at that, by mediation, conciliation, arbitration, or, if necessary, by final determination of the National War Labor Board.

All our study and deliberation convinced us that a strong, responsible, and properly operated union would aid production. When the fear of anti-union activity is removed, there is then a proper basis for harmony and intelligent cooperation between union and management. An attitude of mutual respect between labor and industry is the foundation for a real participation in production by the worker. It should be realized that the laborer has a stake in the company for which he works; if he feels he is a part of it and not just the recipient of kindly largess, he may be expected to work more diligently and put more thought into his job.

Finally, after much travail and care, the Board adopted the so-called maintenance-of-membership formula, which in its most common form as applied by the Board in the ordinary case provides briefly that anyone who is a member of the union fifteen days from the date of the directive order must continue his membership for the life of the contract, as must also anyone joining thereafter. All workers are free to withdraw from the union maintenance provision during the fifteen-day period or refrain from joining without risk of losing their jobs. Both parties are ordered to refrain from any type of coercion. Disputes arising as to whether or not an individual is a union member are settled through the use of ordinary grievance machinery or final arbitration by the Board.

This formula, the Board feels, provides an orderly and peaceful method of settling the question of union security. It means that the union can rest secure in its membership without fear of anti-union activity on the part of the employer and that it can devote its entire efforts toward helping win the war. It means that the employer need have no fear of strikes or picket lines seeking a union or closed shop; that upon this issue the militant aspect of unionism is removed.

Obviously this formula restricts the individual worker's liberties to a certain extent, but only after he had voluntarily submitted to those restrictions. Thus, it was said in the "Little Steel" case, this formula provides

"... for the larger liberty of the members in a secure and stable union. Membership in any organization necessarily imposes restrictions. A free union, like our free society, derives its freedom from the consent of the

governed and from the subordination of personal rights to the general welfare of all the members of the union. Limitations on individual rights are, by the very nature of organized society, the basis of civilization itself. Some limitations on the individual liberty of workers are self-imposed for the larger liberty of the independence, dignity, self-expression, and creative cooperation of workers in labor unions through which they have won and are winning a larger share in the economic, social and spiritual things by which men work and live, and for which they hope and dream for themselves and their children."

Unions and Economic Stabilization

Basic in the philosophy of the Board is the assumption that collective bargaining is a sound and valuable process essential to economic stabilization. Upon that assumption is based the tripartite system of this Board, a system which is directly in line with the principles of government by representation. There are those who think that we can get along in this country without unions. To my mind that is a dangerous view. At the present time we find several countries getting along without unions, the most notable being Germany, Italy, and Japan; but we also find them getting along without private industry as we know it in this country. We would have to blind ourselves to history to believe that a government under which workers are denied the freedom to organize and to bargain collectively would nevertheless give to industrialists all those freedoms which are inherent in our American system of free enterprise.

An excellent discussion of this point of view is contained in Dr. Frank P. Graham's opinion on union security in the "Little Steel" case:

"High on Hitler's list of the institutions of democracy early marked for the destruction necessary to clear the way for the rise of the Nazi dictatorship were and are the church, the parliament, the corporation, and the labor union. These four institutions are the focal motive force of the four main chapters in the rise of human freedom. The freedom of human beings to organize in the autonomous groups has been won through long struggles in the fields of religion, politics, business and labor.

* * * * *

"The freedom and independence of the labor union is of the essence of historic Americanism. The little band of religious Pilgrims who, in seeking the right to organize for the worship of God without the consent of king or bishop, after many vicissitudes in a foreign land and across uncharted seas still clinging to their principles of piety and autonomous religious organization, fetched up on the wintry shores of Massachusetts where their spiritual heroism made Plymouth Rock one of the foundation stones of self-government in America. One year before the Pilgrims reached American shores, Sir Edwin Sandys led a movement in the London Company to recognize

the self-organization of the settlers in Virginia. The less far-sighted business men said it would ruin the business enterprise to give these workingmen the right to share in the regulation of their conditions of life and labor. But the intelligent idealism of Sir Edwin Sandys prevailed over the fears of the more practical minded business men. Thus was born the first representative assembly in the New World. The democratic idea of autonomous political organization, later federated in the American Union, whose American standard was first raised on the banks of the James River in old Virginia, still flies its flag high in all the western world. The freedom and security of the right of all human beings to organize in churches, legislatures, corporations, and labor unions is part of the basic meaning of our American freedom and is at the heart of what the war is all about. Hitler is out to destroy the freedom of America and the free basic institutions of democracy everywhere. The struggle over the freedom and security of the union is, therefore, one of the latest episodes in the American chapter of the rise of democracy in the modern world, and is at the very center of the global struggle between the United Nations and the Axis powers."

The National War Labor Board, within its proper scope, has insisted that unions demonstrate a responsibility and a recognition of their duty to the nation as well as their duty to their members. Thus in the Monsanto Chemical Company and the General Chemical Company cases, this Board denied any form of protective security to the unions because they had violated their no-strike pledge to the President. But the fact remains that the power of the National War Labor Board to regulate unions is practically non-existent. It has the job of settling their disputes but it has no authority whereby it may regulate the organization's general conduct. It is undoubtedly true that as more and more American working men become members of the great body of organized labor, there will be increasing demand that Congress pass some sort of legislation protecting the American working man from the danger of abusive practices of his own organization. The government has found it necessary to regulate corporations, for as they became larger and more powerful there began to grow up certain abuses and practices detrimental to the rights of the stockholders and dangerous to the welfare of the nation. It seems more than likely that as labor unions increase in power and assume a place of greater importance in our national life, they too will be subjected to regulations designed to protect the working man and the nation.

It is only fair to labor to say that American workers as well as industry have done a marvelous job in producing the goods necessary to win this war. They have set records from coast to coast; they have sacrificed much. True, they have strenuously objected to any sacrifices of what are termed social gains but, generally speaking, those objections are valid, for every social gain that we sacrifice unnecessarily should be considered as a casualty of war and as a victory for the Axis.

It is unfortunate that there have been strikes, but it is a matter of accurate record that those strikes have represented an almost infinitesimal portion of America's labor. Of course, even though they represent a

small portion they are none-the-less reprehensible. However, it is not fair to indict all labor because of the crimes of a few.

It is true that man-hours lost have increased month by month, but we must also note that war employment and war production and the number of establishments engaged in wartime work have been expanding very rapidly since Pearl Harbor. It is obvious that the total number of war industry strikes and the number of men involved and the number of man-hours lost would rise in proportion to that conversion.

Now, of course, we must not and should not blindly shut our eyes to the action of any group within our country which imperils the war effort. But let us do our criticising fairly. If we are to point out the errors of other groups, let it be done with only one thought in mind, and that is to present the correct facts. Advantage should not be taken of this war period to carry on a campaign to destroy unionism. Controversies between strong national employer organizations and organized labor over unionism should wait at least until the war is won and the right to differ in our free society over such questions has been preserved by a victory over the dictators.

The speaker is convinced that strong, responsible unions, organized on the basis of principles which protect the democratic rights of their members, are essential to the preservation of our American economy. They undoubtedly will prove to be a great source of strength upon which this country can rely in any fight in the future against revolutionary doctrines which may seek to supplant our form of government as an aftermath of this war. Too frequently critics of certain labor abuses fall into the fallacy of overgeneralization and condemn the entire labor movement for the mistakes and corruption of a very small minority of "bad actors" within its ranks.

An overwhelming majority of the officers and organizers of American unions, both international and local, have cooperated wholeheartedly with the War Labor Board in carrying out the aims and objectives of the no-strike no-lockout agreement. It is to be expected that they will and should do what they can to protect the legitimate interests of American labor. If we are going to be realists in regard to the problems of our war economy, we should recognize that American labor has the right to protect its legitimate interests, and the test as to whether or not labor is entitled to any given demand must be found in the answer to the question as to whether or not the demand interferes with the war effort. Leaders of labor, like leaders of industry, have demonstrated over and over again during this war that when the government asks them in the interests of the war effort to forego some demand or claim, they can be counted upon to comply with such a request.

Industrial harmony and good labor morale are not promoted by those individuals and groups who, allegedly in the name of patriotism and the war effort, make loose blanket accusations against organized labor and seek to prevent the legitimate organizing activities of American unions.

The average union man is basically conservative. When one analyzes his hopes and ambitions, his ideals and aspirations, it is discovered that the average union man is very much a typical American. He wants to own a home; provide his children with the best education possible; pay for adequate medical care; obtain for himself and family a reasonably decent standard of

living which will permit them to enjoy a fair share of the good things of life; and, through savings, investments, and insurance, make certain that he and his wife will not become a burden upon society in their old age. He is loyal to our democratic form of government, ready to fight and sacrifice for it in times of war, just as at the present time we see thousands upon thousands of men from the ranks of organized labor joining with equally loyal Americans from all other ranks of our citizenry in fighting for a common cause in the armed forces of our nation.

Organized labor fully appreciates the fact that it would lose as much as, if not more than any other group in our society if the American system of political and economic democracy should ever suffer defeat at the hands of a foreign invader or from revolutionary hysteria. Organized labor can be counted upon to fight to preserve our capitalistic form of economy, because it is that system which has enabled the American worker to enjoy a higher standard of living than workers in any other country. Our system of American free enterprise, subjected to reasonable government regulation in the interest of the common welfare, has been very instrumental in giving to the American workman an abiding faith in the democratic principles of self-government.

The industrial statesmen among employers today recognize that their employees are, by far, much better friends than are their employer competitors. In most instances employees are very loyal to the employer for whom they work. They recognize that upon the success of their employer is dependent much of their own economic welfare. As a usual thing, the employees are to help the employer, whereas his competitors are out to cut his throat.

Even the severest critic of unionism must admit that the organization of labor into unions has greatly improved the economic position of American workers generally. Of course there are a multitude of complex factors that must be taken into account when analyzing the causative forces which have produced the high standards of living of American workmen, but nevertheless the labor union must be given great weight in any such analysis. However, the practices of organized labor have not always been lily-white and free of abuses. Dictatorial methods of some labor leaders in the history of the American labor movement have been inconsistent with democratic principles of union organization. Resort to violence and destruction of life and property during strikes has left a dark stain on the record of organized labor from time to time. Excessive initiation fees and dues far beyond the financial requirements of legitimate organization activities and the assessing of exorbitant fees for work permits from non-union workers in a plant have aroused much criticism of the financial policies of unions. Deliberate slow-downs, sit-down strikes, "make-work" programs, with their resulting economic waste, and work stoppages in time of war over jurisdictional issues have stirred up, and rightly so, much public criticism of organized labor. However, fairness demands that the critics remember that labor unions, like employer associations, are composed of human beings, possessed of all the weaknesses and selfish characteristics of man. Their abuses should, and must be checked in the interests of the common good, but so-called reforms which would place unions in straitjackets and make it impossible for them to function effectively as strong collective-bargaining agencies are bound to defeat their own aims, as long as American workmen remain free.

